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Hearings. v. 17-20, 1955.

1958





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ROYAL COMMISSION  
ON  
CANADA'S ECONOMIC PROSPECTS

HEARINGS

HELD AT

VANCOUVER, BRITISH COLUMBIA      DECEMBER 2, 1955

VOLUME 17







Friday, December 2, 1955.

The commission resumed at 10

a.m.

APPEARANCES:

Mr. R.K. Gervin, general  
secretary treasurer;

Mr. Mason;  
for the Vancouver-New  
Westminster District Trades  
and Labour Council.

Mr. Homer Stevens, secretary;  
Mr. W. Wrigby, research director;  
for the United Fishermen and  
Allied Workers' Union.

Mr. J.W. Wilson,  
for the Lower Mainland  
Regional Planning Board of  
British Columbia.

THE CHAIRMAN: Well, gentlemen,  
shall we come to order? The first item on the  
agenda this morning is a brief to be submitted  
by the Vancouver-New Westminster and District  
Trades and Labour Council, which Mr. R.K. Gervin,  
general secretary treasurer, will present.

I would like to take this  
opportunity of repeating what I have said on one





or two other occasions; that this commission is extremely grateful to both the Trades and Labour Congress and the Canadian Congress of Labour for permitting their research staffs to undertake two studies for this commission, which we are quite satisfied will be very valuable to us.

I think all the members of the commission and the staff have read this brief which is about to be presented, but I will not steal anybody's thunder by commenting upon it at this stage, except to say that it is one of the ones we have been looking forward to having presented to us and discussing.

Will you proceed, Mr. Gervin?

MR. GERVIN: Thank you, Mr.

Chairman and gentlemen. Ordinarily, of course, the council would not make such a presentation; it would be done by the head offices of the labour organizations at Ottawa. But upon learning that the commission would sit here, we thought we might present our views as one of the local bodies.

In this council which we represent we have 114 unions with a membership of some 50,000 in greater Vancouver, New Westminster and the Fraser valley, and we thought under those circumstances we should perhaps put forward our point of view dealing





specifically with the points of productivity and the standard of living. Mr. Mason has done practically all the research and the preparation of the brief, and for that reason I shall depend upon him to answer any questions which might be forthcoming when I have made a brief statement covering the contents of our submission.

THE CHAIRMAN: Thank you. We will mark the brief Exhibit 96.

MR. GERVIN: Our reasons for submitting a brief to this royal commission are very simple. As trade unionists we are vitally concerned in bringing about the improvements in the standard of living which we believe are possible within the next two decades. Furthermore we are determined that the maintenance of a high level of employment is not only imperative but also necessary if we are to achieve the standard of living which we believe is possible by 1975.

The gross national product is an indicator of the total output of a nation and, therefore, the standard of living -- assuming a balanced economic growth, of course. Two forecasts of the gross national product 20 years hence are written into the economic record. The first is that of Mr. James E. Coyne, governor of the Bank of Canada. The second is that of Dr. H.M.H.A. van der Valk, the eminent Dutch economist. Both are predicated upon similar





population estimates and price assumptions.

There the similarity ends.

Governor Coyne estimates that the gross national product 20 years hence will be of the order of \$55 billion. Dr. van der Valk predicts a gross national product of \$80 billion. The disparity is enormous and of vital interest to us all. From the materialistic point of view, the difference in the standard of living implicit in the two estimates is so vast that it would be almost criminal to be satisfied with the gross national product of Mr. Coyne if that of Dr. van der Valk is attainable.

There is, however, another aspect which engages the minds of all Canadian workers. Failure to achieve maximum economic development does not merely result in all Canadians having a little less of the good things in life. If that were so, it would, no doubt, be regrettable, but not a matter of life and death. But such a failure does not so result. The result is unemployment -- privation amongst plenty for many of our citizens. We therefore set out to discover as best as we were able whether the forecast of Dr. van der Valk belonged to the realm of fact or fiction.

The increase of the gross national product is a function of the growth and composition of the population and the rate of increase of the productivity of the factors of production.





Therefore we examined population estimates and drew conclusions about the future growth of the labour force. We suggested that the labour force can be expected to grow at an annual rate of not less than 2 per cent during the next 20 years. We next turned our attention to the question of productivity -- not without a great deal of trepidation. We rejected all the historical estimates of Sutton, Firestone and Madison. We rejected them because they tell the story of what happens in war and depression. We trust that the future of Canada will have little in common with its past.

We made an examination of the over-all growth of the economy for the year 1949 onward. We examined output trends in the more important sectors of the economy. No one is more aware of the deficiencies of our studies than ourselves. However, we were driven to the conclusion that productivity was increasing at an over-all rate in excess of 4 per cent per annum since 1949. We gave several reasons why we expected this trend to continue in the future. We pointed out that it appears that productivity in manufacturing, for example, appears to be increasing at an astonishing rate. We made reference to the comparative growths of the United States and this country.

Our belief is that the gross national product can increase by a minimum of





5½ per cent per annum. A simple calculation indicates that the forecast of Dr. van der Valk does, indeed, belong to the realm of reality. Throughout our submission we have hammered home the fact that a continuously expanding economy is a must. We stated that those who will the end must will the means. Therefore we believed that we should suggest what should be done if our economy falters from time to time -- as, indeed, it will.

We believe that fiscal policy offers the best approach. We pointed out that the concept of what we termed pure contra-cyclical budgeting is not enough. We believe that only budgets based upon the principle of full compensation will be of use. We want that fact accepted by all political parties. In our minds there is no doubt about it. We pointed out that we detected the germ of the idea in the last federal budget. For that we are grateful. However, we differ with the finance minister on the quantitative aspect of the budget. It would appear from a careful examination of the words of the minister that he had in mind an annual growth figure of 3 per cent, a figure we believe is far too low. It didn't matter this year for obvious reasons, but it might matter a great deal in the future.

The details of the budget must be predicated on sound economic principles and not





on political expediency, a task of no mean proportion. We made some reference to the size of the national debt. We did so because there are many who believe that it is an axe hanging over the heads of our people. We stated that it is our belief that deficit financing will not bring financial disaster to the nation. An examination of table 19 reveals that the burden of the debt is likely to be far heavier if we allow a depression than if we engage in deficit spending.

That, Mr. Chairman, is our submission, and we would be pleased to try to answer any questions you may wish to ask.

THE CHAIRMAN: Thank you very much, Mr. Gervin. It is certainly a very excellent brief, and I thought the last two pages presented a very challenging conclusion. Altogether it is a fine piece of work.

We are going to ask Mr. LePan, the commission's director of research, to ask some questions; but before doing so, on the more technical calculations in the brief, there are a few questions which I would like to ask. If I may I will follow the pages of the brief.

First of all, on page 6 there are two statements that I do not question, but on which I would like to know your views and ask if you would amplify them. It is stated that it is essential that the present racial





composition of the country be maintained, and also:

"As this submission is vitally concerned with a high level of employment we shall assume that immigration will continue at a rate commensurate with that of recent years."

Are those two views held strongly by your organizations?

MR. MASON: Do you mean do we want immigration to continue at the same rate?

THE CHAIRMAN: Yes.

MR. MASON: I would say yes. We do, of course, have reservations. Naturally if we do have an increase in seasonal unemployment we do not want immigrants coming in during those months. We want Canada to be as well developed as possible, and we realize that immigration is essential; but we still have to look after our own interests. We cannot be that idealistic.

MR. GERVIN: I think that is the main point we must remember; that the idea of opening the door to people and bringing them here when there is not employment for them, bringing them here more rapidly than the way is paved for them or than the country is ready to receive them, is what we object to.

THE CHAIRMAN: Then on the other





point, about the present racial composition, there are two problems about immigration. One, you have to decide whether you want immigrants, and then the prospective immigrants have to decide whether they wish to come. It does not follow that we can necessarily decide how many people we would like to have, and then decide which countries we would like them to come from. Do you think we should be particular about that?

MR. GERVIN: When we talk about whether the people would like to come, I have always been of the opinion or I have been a little suspicious, let me put it that way, that sometimes there is a rather glowing picture painted to the prospective citizens from other countries that is inclined to mislead them. I think we should be very careful of that. I think if the truth and the facts of what we have and what is available here are made quite clear to those people it might cause them to think and perhaps come to the country a little better equipped to meet the conditions here than some of them are at the present time.

I have had the opportunity of seeing some of the people who have recently come to the country. I think most of them have been able to establish themselves rather well, but there are a few who have not, and I say it is not good for our country to permit them to get into the position of having to go begging and be out of





work with very little prospect of getting it; with very little knowledge of the language, thrown into a country that is entirely strange to them without either the equipment or the opportunity of establishing themselves. I think Mr. Mason has something to add to that.

MR. MASON: There is another point regarding the attraction of immigrants, shall we say, from the United Kingdom. I can speak with a little knowledge on this point, because I went to Australia before I came to Canada. As you know, I believe Australia has attracted more immigrants than Canada since the end of the war.

Regarding those immigrants from Great Britain, I think there are two points to be remembered.

THE CHAIRMAN: It is about the same, is it not?

MR. MASON: I think Australia is up slightly over a million, I believe about 1,100,000, which I understand is slightly more than Canada; and of course you have to remember the difference in the population.

There are two points in that connection. One is that immigrants can bring all their money to Australia. That is a factor, because while I do not know whether the regulations have been relaxed in Great Britain at the present time, if a man has a family and



wants to establish a home, usually if he can do that he has precious little else to sort of keep him going.

The second point, of course, is the question of employment. Australia, I suppose, is what you would call in a condition of more than full employment, which means that employers are not lacking. They also have a slightly more advanced system of social security, which I think people from Great Britain, for good or bad, expect. I think perhaps with progress along those lines, offering some measure of security, we will not have a great deal of difficulty in attracting immigrants from Great Britain.

THE CHAIRMAN: You must not restrict it to those from Great Britain. After all, we have to attract some people from France to keep this balance you are speaking of.

MR. MASON: I am fairly familiar with France. I believe the French are the world's worst travelers. They are so enamoured of their own country they do not want to go anywhere else.

THE CHAIRMAN: I do not know why they would be. In any case shall we leave that and go to another point. On page 29, at the bottom of the page, you say:

"We are inclined to believe  
that we are at the beginning of





one of those periodic spurts in output per unit, which seem occur from time to time."

I do not know enough about it to have more than a vague hunch; but to the extent of the vague hunch it would be along the same line as this statement in so far as the manufacturing industries are concerned, and the extractive industries; but I think we might be making a mistake if we assumed that the kind of spurt in output per unit would necessarily apply right across the piece.

I wonder whether you would think that would apply equally to such fields as the whole of the distributing trades, to the transportation systems, to agriculture, which has had a great spurt but perhaps the biggest part of the spurt could be over; and to the very substantial number of people who are employed, and I would expect the numbers would be larger over the years, in the government service at the three levels of government.

MR. MASON: I would say obviously not. I do not think it is spread right across every sector of the economy. What is going to happen in the future we do not know, of course. Most of us in offices hear a great deal about the future mechanization of offices, and I think that will be a great field in the future for





efficiency. In the distributing trades, there again I think probably we will get some improvement in efficiency with more or less automatic merchandising, but I do not know how far it will go. On the other fields I will not say anything, because there are probably some government servants here.

THE CHAIRMAN: We will exclude those present. I was not going to apply this to all, but really you have covered them when you referred to the people who work in offices and that sort of thing. If these mechanical devices you mention that are being introduced into offices are a success, then quite obviously they will be used in government offices as well; so I think that answers that question.

MR. MASON: There is just one other point regarding agriculture. Of course that is a delicate subject at the moment, but I do think perhaps if there were an increase in the number of larger-scale farms and a reduction in the number of marginal farms, agriculture probably would be more efficient and more able to stand on its own feet. That is purely a personal viewpoint. You will see later on that we know nothing at all about agriculture, but that would be my thinking on that point.

THE CHAIRMAN: At the top of page 41 you state that you are not prepared to voice an opinion at this time on the question of



monopoly and the combines act. I merely wanted to say that if later on you do form opinions on that subject, if you would be good enough to send them along to us we would like very much to know what your views are.

MR. GERVIN: Thank you.

MR. STEWART: I could not help wondering why you put in this teaser.

MR. MASON: I will tell you why, sir. It was for this reason, that no one is more aware, I think, than we are of some of the efficiency you can get by concentration; but also I am afraid no one is more aware of the drawbacks to it, and I think it is going to be one of the big problems of our time. As I say, I have no concrete views to express at this moment.

THE CHAIRMAN: At the bottom of page 49 there is the statement that you believe fiscal policy should be expansionary, but you say you are aware that such a policy will meet bitter opposition. Then on page 55 you point out that it is far easier to shake off inflation than it is to pull out of a recession once the latter is really under way. You say:

"We believe, therefore, that it is far better that the government move too hastily than too late. Ideally, of course,





what is required are automatic stabilizers built into the economy. Unemployment insurance is a case in point, and so we believe is the guaranteed annual wage."

Then on page 56 you quote Macaulay on debt and suggest, as you did in your summary, that there may be people who would oppose very strenuously any substantial increase in that debt.

I was wondering, Mr. Gervin and Mr. Mason, whether those fears are entirely justified in this day and age. It seems to me that a good many people in this country, certainly I would think a considerable majority, would agree in general with the approach which you advocate here. If there is a difference of view I would think perhaps it was a difference in degree rather than the extreme difference which you indicate here.

I suppose there are limits, as we have been suggesting once or twice during these hearings, to the amount the federal treasury can advance over a short period of time. The limits perhaps should be expressed in terms of limitations of manpower and perhaps to a lesser extent materials, rather than in money terms. But it seemed to me that you were exaggerating the fears





that were expressed here, and I wondered if you would agree with that conclusion on my part.

MR. MASON: Here is the point again that people are funny. Over the past few years the debt has been reduced by budgeting for surpluses, and the national debt has receded into the background of the minds of most people. But I am quite convinced that if deficit financing is necessary for perhaps two or three years, then all the old fears and bogeys about the relationship, shall we say, between the finances of the household and those of a government will come back into force. After all, there are many economists who were trained 20 or 30 years ago; and the academic mind, once set into a rut, takes a lot of changing.

I do believe that if we have to embark upon such a course in the future, all those old fears will arise again. Whether the government of the day will be prepared to listen will be another matter, but I do believe these things always come back.

Of course there is another point, that in Canada there is an old Puritan streak in people, especially in the maritimes --

THE CHAIRMAN: If you are going to talk about Puritans don't leave out Ontario.

MR. MASON: There are those people who believe that depressions are visitations from God for excesses of the past,



and I believe you would get a lot of agitation from those people if the government should embark upon deficit spending to any large extent.

THE CHAIRMAN: This is an aside, but on page 50, in talking about the April, 1955 budget of the present Minister of Finance, you say:

" -- it must be borne in mind that at the time of the budget announcement, the government was well aware that an upturn had occurred."

I would like to put in a plug for the Minister of Finance. I think that is going too far. I think he might have hoped that the upturn was in sight, but I do not think he was just that certain about it.

MR. MASON: Well, may I say this. Of course it is a pastime of all of us to be suspicious of the government when they do anything good, but if you will look at the national accounting figures for the last quarter of 1954 -- and perhaps the finance minister had some comparative figures for the first quarter of 1955 -- it did appear that an upturn was on the way. I think the bulk of the liquidation was over and things did appear to be on the upturn. But as we have stated, we were very, very pleased about the policy of the finance minister,





and as I say, if we have taken away any of his glory we are very apologetic.

THE CHAIRMAN: I just thought his heart was in the right place, and we should not be too unkind to him. At the bottom of page 52 you refer a publication entitled, "Towards Full Employment and Full Production" about which I probably should know but I do not.

MR. MASON: Here again I stand to be corrected, but I think the people who sponsored that publication are the committee for economic development, or some such organization. To reassure you, it is not a labour publication. There are many, many others who are advisors to it.

THE CHAIRMAN: I would be prepared to read it in any event. I just wanted to get the source, because I would like to get a copy of it.

MR. MASON: I have a copy which I can put in as an exhibit.

THE CHAIRMAN: I have just asked some questions at random on matters I was interested in, but I would like to ask Mr. LePan now if he would put to you a number of questions on points he would like to have clarified.

MR. LEPAN: I think I should first repeat, Mr. Chairman, what you have already said; how grateful we are for this brief. This is the first time, I think, we have received a





brief of such statistical austerity and interest; and its importance, of course, lies in the fact that it emerges out of a considerable statistical complexity into consideration of issues that will affect the well being of all Canadians over the next two or three decades.

Speaking more personally, I am very grateful to you because it traverses many of the points that the research staff have to consider in putting together the structure of such views as may be presented to the commissioners for their report.

I would like to start back, if I may, at one area about which the chairman was asking a question or two, and ask another question about immigration. On page 7 of the brief itself you point out that you are taking as the assumption for your projection that there will be a net immigration of 100,000 over the period that is covered; that is, for the next 20 years; that is, 100,000 per year. My question is whether or not you think this is realistic, in the light of past Canadian experience?

MR. MASON: When you say "in the light of past Canadian experience" I do not know if you agree about the history of Canada, but my feeling on that point is this; that from the rough research we have made into Canada's economic future, which I believe is a really glowing one, and providing we do maintain a fairly



high level of employment here, we will get immigrants. Of that I am quite convinced; but there is nothing worse for immigration than these periodic, shall we say, outbursts of unemployment and things like that, because they do scare immigrants off. Immigrants do not have resources. They want to get to work and stay at work to build a home and bring up their families.

In my mind I do not think that figure will be too far out if we do maintain a high level of employment; and I expect Canada to progress in the next 20 years. The figure may be high or low; I don't know.

MR. LEPAN: You perhaps will not mind if I remind you that in no 10-year period in this century has net immigration into Canada been that high. For example, in the years from 1901 to 1911, which was the period of the opening up of the western prairies, with great immigration into that area, it only amounted in the net to some 71,000. It is true that in 1954 there was a net immigration into Canada of 100,000, but as far as I am aware that is the only year in our history in which that has been the case.

What I am getting at is that the figure that is taken for net migration has a very important influence on the total population as projected and that if you took, for example, the lower assumption that is set out on page 7 you





would come up in 1975 with a population two million less and a very considerably smaller gross national product.

MR. MASON: There are two points there. First of all, with regard to the earlier history of Canada, of course the population was much less in those days and the prospects of assimilating immigrants would be less. Another point is that as was stated earlier, Australia has taken more than a million immigrants in less than 10 years, and they expect to do so in the future. I cannot see why Canada, of all places, cannot do so also.

The other thing we mentioned was the fact that we expect emigration out of Canada to be far less as prosperity increases. We have said also that as the population grows there will be more opportunities for specialists, and I think this emigration out of Canada, which I believe has been a tragic thing, will dwindle. And of course regarding the future, I think for instance it might be the other way with regard to the interchange across the border.

MR. LEPAN: Would the Trades and Labour Council be in favour of the kind of scheme for assisted emigration that has been in effect in Australia since the end of the war? Would you be in favour of that being applied to Canada?

MR. GERVIN: We would have to give thought before answering that question. That



is something which has never been considered.

We would not want to answer that at this point.

MR. LEPAN: I ask the question primarily because, as is indeed suggested in the brief, it might be thought that with full employment in western Europe and with some degree of probability that it could be maintained, the traditional sources of immigrants into Canada may not be in economic circumstances in which many immigrants will want to leave; and if we were to have a net immigration into Canada of 100,000 people, perhaps we would have to offer more inducements.

MR. MASON: I can say one thing without compromising our position, because you will realize that we are the junior member of our congress. Take Australia. There you have people who certainly believe in full employment, and the Australian labour unions would be the first to kick about immigrants, and they are strong enough to make it stick. Yet you hear little grumbling in Australia at the present time about immigrants, because they realize that if they lose a job they can go out and get three more in the same day.

I am not saying that is necessarily a good thing, but that is how it is. It might be that if conditions were better in Canada as far as employment opportunities are concerned the congress might take a broader view; but we





are not in a position to state that now.

MR. LEPAN: May I go on now to speak a little and ask you a question or two about your projections of the labour force. On page 9 there are a couple of points made to which I would like to direct attention. First of all it is pointed out that the rate of participation in the labour force in the United States has been higher than in Canada. What are the reasons for that, would you say?

MR. MASON: One of them I think undoubtedly is the fact that because of the greater development of secondary industries, there are far more employment opportunities for females; and another point could be that the Americans are slightly more materialistic than Canadians, and the additional earnings the wife may bring in will more than compensate for the lack of family life. I don't know; I may be doing them an injustice.

I think the difference to a large degree is due to the difference in the percentage of females employed in industry. Of course whether that will happen in Canada I would not like to say, but I would think probably when Canada does become more industrialized we probably will have a higher percentage of females in the labour force, in manufacturing at any rate.

MR. LEPAN: That is the next thing



I wanted to ask about. You are not forecasting any change in the rate of participation of membership in the labour force over the next 20 years. I was wondering why. It might, for example, be argued that people would want to take some of the dividends of increased productivity in the form of earlier retirement of the older members of the population, and in longer training for the young. Do you think that is going to happen or not?

MR. MASON: I myself think it would be a very good thing; but you have always to remember, regarding earlier retirement, that you have to have something to live on; and I have not seen any conspicuous success in the past in urging the federal government to increase old age pensions. Nor am I sure that we find it very easy to force management to give very big pensions on retirement. Those are things labour will have to fight for.

MR. LEPAN: That is really what I am asking for; what you will be fighting for.

MR. MASON: I have one personal viewpoint on that, and it is that most men, when they reach the age of 65 and have to retire, do not have time to readjust themselves. If I were given a choice I would either retire earlier or not retire at all and die in harness.

Regarding the question of the extended education at the bottom end of the age





group, there again that is a question of giving assistance, shall we say, to students to go to universities. As a stranger to this country I hate to make unfair comparisons, but I do think we are far behind Great Britain in that respect, and I speak from personal experience. I see very few scholarships in Canada which would enable a student to go to university and pay all his fees and pay his room and board and have some pocket money over so he would not have to work during vacation. I suggest there are very few scholarships of that kind in Canada.

MR. GRAUER: The approach here is different. We look forward to people working in the summer here, and think it is a good thing for them. You will find that in this country there is quite a background of that feeling, that it is good for the student to get out and work.

In Great Britain I think probably they had very few opportunities of that nature, but the economy here is much more seasonal and the work opens up in the summer months. You pretty well had to provide scholarships which would cover all expenses; otherwise a person would have to work the year round.

MR. MASON: Well, I will say this much. I may have been a very stupid student, but I found that the standard was so high that



anyone who did have to work during the vacation was at a decided disadvantage. I think if the student has to put in three or four months during the year working, his academic standing is going to suffer.

Of course it all depends on the quality you wish to turn out from your universities. A great deal of studying should be done during the holidays.

MR. GRAUER: If you are talking about studying, I did not study at all in the holidays when I went to Oxford.

MR. MASON: I did.

MR. LEPAN: If I might intervene in this fight between two blues --

MR. MASON: May I ask whether that was when you were doing postgraduate or undergraduate work?

MR. GRAUER: Undergraduate; it was a law course. But I do think there is a difference in attitude there. You may not agree with the Canadian attitude, but it is a knowing one. We did not just blunder into it; we took it more or less on purpose.

MR. MASON: Well, as I say it was a fight I did not want to get into in the first place.

MR. GERVIN: If I may say a word before you leave that question of the system of retirement and the longer education periods, I





want you to have it clearly in mind that the congress will continue to press for earlier retirement and earlier old age pensions. The policy at the moment, or what we are advocating at the moment, is old age pensions at 65 for the male and 60 for the female, and greater opportunities of education for the younger people.

MR. GRAUER: Are these federal old age pensions you are talking about?

MR. GERVIN: Yes; it is the national body I am speaking about.

MR. GRAUER: If you were not intending to pursue that point further, Mr. LePan, I think there is a good deal of misconception on this subject. As I understand it, the Canadian government, when it set up this particular form of old age pension which we have and which is quite unique, where everyone at the age of 70 gets a minimal pension of \$40 a month, they deliberately did not follow the traditional pattern which was developed in western Europe and which the United States follows, of contributory old age pensions with the employee and the employer contributing throughout the working life of the employee, with the state putting in or not putting in something.

The idea of the contributory pension system is to provide a person on retirement with a pension on which he can live.



The idea behind the Canadian pension is quite different. It is to give everybody, irrespective of income, as a matter of right -- and they adjusted income tax exemptions to take this into account -- something which they are not supposed to be able to live on, and they are supposed to provide the difference themselves during their working lives.

I think it is recognized by the government that it is a very expensive system. That is why they have the retirement age at 70, but you give everybody a pension, and that is why it must be kept on a minimal basis.

As far as I can see a great many people and a great many organizations in Canada do not appreciate the philosophy behind our pension system at all. They think it is an outrage that we have a pension of only \$40 a month. We had a representative of the Senior Citizens Association appear before us who used the expression, "You cannot live on \$40 a month." You are not supposed to. If you brought the age down to 65 right now, even at \$40 a month I think you would find the Department of Finance people telling you it would wreck our national credit.

So what I was going to ask you on this point was this. Do you agree with the approach the federal government is taking on old age pensions, which as far as one can see will mean that the old age pension will have to be





given at a relatively late time in life, and be relatively small because it is given to everybody; or do you have in mind some other approach to the old problem?

MR. GERVIN: It may be that we would have to, as you say, consider our position or reconsider our position if we are going to establish a sufficient amount for people to live on. That is something to consider, but in the meantime we are looking at it from what we have before us at the present time, when we consider these things and lay down a policy of what we shall ask for, and we have to consider what is here. If obtaining larger pensions for the people means a change in the system, then perhaps that is what we will have to work to get; but in the meantime this is what we have and this is what we are advocating under the present sytem.

MR. GRAUER: You are advocating old age pensions at the age of 65?

MR. GERVIN: Yes.

MR. GRAUER: Then if you advocate that you are advocating a different system.

MR. GERVIN: Well, of course, you see this is the first time to my knowledge that we have been told that if we are going to have something, then it means a different system of pensions by the government. In all the times we have made representations -- and I have been



present when these representations have been made -- I have yet to hear government representatives tell us what you have told us today. If this is the situation, then the government should say so and perhaps we should approach it from some other angle.

MR. GRAUER: I think there is a lack of education on the point already. The other point on pensions I wanted to ask about was this. Do I understand correctly that what the Trades and Labour Congress advocates is earlier retirement rather than flexible retirement?

As you probably know, there is a great deal of opinion now that talks in terms of a flexible retirement age, let us say, between 60 and 70. Admittedly that is a rather tough one to administer. Let us say a company has such a pension system. There would have to be some way of deciding who is going to retire at 60 and who is going to retire at 70, though I believe the medical people tell us that is a more sensible type of retirement plan.

I just wanted to be sure whether I got you right, that the Trades and Labour Congress has in mind an earlier retirement age, preferably leading up to something like 60, although you are advocating 65 at the present time?

MR. GERVIN: That is right.

MR. LEPAN: May I go on, then, to





another assumption that is implicit in your forecast on page 45, I think, of a gross national product in 1975 of approximately \$80 billion. You have estimated the population and the labour force, and made an estimate of the rate of increase in productivity. Before those things can be put together, though, to yield an estimate of gross national product, you have to make some assumption about hours of work; and I wondered if you had any views to express as to how this might change in the forecast period.

MR. MASON: Let me say first that in calculating the gross national product of \$80 billion we have utilized an increase in productivity per man year of 3.5 per cent, which we think perhaps is rather low. To that extent I think if we did work the same number of hours as we do today, it might be higher; but no one can predict the future. Regarding the question of the hours of work, I think if you asked Mr. Gervin that question he might be in a position to decide policy.

MR. LEPAN: I was wondering, Mr. Gervin, if you could give us any indication as to how the number of hours worked in a week might be expected to alter over the next two or three decades and, indeed, what would be the objective of your own council and more generally of organized labour in this regard.

MR. GERVIN: It is a little



difficult to say. I know what we are advocating, and I suggest to you that as we progress; as we get these automatic machines and they become more common, then certainly it is going to require working fewer hours. We are now advocating in industry a 30-hour week.

I would suggest that there are very, very few industries which are at present working 44 hours. I think 40 is common; some are working 35, particularly in offices, and I anticipate -- it is hard for me to say what actually will happen, but certainly a greater number will be going on to the 35-hour week, and you can be sure that we will continue to press for fewer hours. Already the mechanics are pressing for a 35-hour week, and I expect that within two years there will be more people on the 35-hour week and in 10 years I would guess that the 44-hour week would be practically a thing that is gone by, a thing of the past. I am pretty sure of that.

MR. MASON: I might say there are two points to be considered regarding the question of the reduction of working hours. There is the point that when you have sufficient employment opportunities, workmen would like to take part of this increase in productivity in leisure. That is one aspect of it.

The other aspect of it, and I am not prepared to comment on the economics of it,





is the splitting of the work with the danger of unemployment. I think the two have to be considered differently. There is a tremendous difference between advocating shorter hours out of sheer necessity and having, shall we say, the choice of taking leisure rather than an increased standard of living. I think the two must be separated.

I would say that if there is a great deal of unemployment the battle for shorter hours per week would become far more intense. You cannot make any predictions, I do not think, as to what the hours will be. It will all depend on circumstances.

MR. LEPAN: My next questions refer to what I take it is really the centre piece of your brief, where you very generously and helpfully have discussed in considerable detail the question of what is likely to be the rate of increase in output per man hour.

My first question may seem little more than a quibble. I think it is a little more than that, because in this matter a difference of half a percentage point is of some importance. I would like to ask what is in fact your view as to the anticipated rate of increase in output per man hour. On page 26 it is stated:

"It would appear that the global or over-all productivity of the economy is increasing at



a rate of approximately 4 per cent per annum, notwithstanding the above factors."

Then on page 38 the same percentage is cited and the brief then goes on:

"We must now ask whether such a rate of progress is likely to persist in the future."

Then the assertion is made:

"It is our belief that it will."

On page 52, however, there is this sentence:

"Productivity in our estimation will continue in the neighbourhood of  $3\frac{1}{2}$  per cent --"

I am wondering just which of those is the preferred figure, and wondering whether you have the courage of your convictions.

MR. MASON: Oh, yes, I have.

MR. LEPAN: Or whether toward the end of your brief you were rather frightened by your own audacity.

MR. MASON: We calculated the gross national product on the basis of  $3\frac{1}{2}$  per cent, and our point in using that figure with regard to fiscal policy was this. We are very conservative.





We do not like to exaggerate. I think  $3\frac{1}{2}$  per cent is low, but I can understand that if anyone went to the federal government and quoted the rate at which the productivity is increasing right now and said, "That is the basis on which you must decide your budget" I do not think he would get very far.

We do believe it is more than 4 per cent, but we have taken  $3\frac{1}{2}$  per cent to be conservative, to make some allowance perhaps for a reduction in hours. For the last few years we believe 4 per cent is perhaps the minimum, and I suggest that your studies will possibly confirm that, and I think it might even go higher. We have taken  $3\frac{1}{2}$  per cent as an absolute minimum, rock bottom, on which long-term planning should be based. It was not the fact that we did not have the courage of convictions. We have it, all right, but we did not want to overstate the case.

MR. LEPAN: Your quarrel with the governor of the Bank of Canada, I take it, is that his projection is anchored in a considerable period into the past, which includes a major depression and a great war; and that if in fact you take a much shorter period as the springboard for the projection, you come up with something very different.

My question is whether or not you think that from 1949 to the present is a sufficiently long time on which to base a projection



of anticipated rate of increase in output per man hour.

MR.MASON: I can answer that question partially. In connection with the long-term projection we had to consider what happened in war and depression. You could not go back before 1949 because the state of the economy after the war was a period of transition. But about 1949 we think we started getting back to something like a normal peace time economy, which we are likely to get in the future.

It is my personal belief that for the next 20 years we will have to spend a lot of money on armaments; that this coexistence business is going on for a long time. We would have preferred to take a longer period; but I do think when you are trying to calculate what is happening in the present state of technology you have to look at what is happening in the immediate past. Perhaps if in 5 years' time someone does another analysis, as they undoubtedly will, and takes the period from 1949 onward, I believe they will find an even higher figure than ours. It was the only figure we could find that we thought was pertinent to the case.

We have stated later, I think, in looking toward the future that we think it is necessary that some of the factors which have been responsible for that growth since 1949 will have to continue. We mention the high rate of





capital expenditures. I think today -- I may be a little out in this figure -- to provide one job in industry takes perhaps \$10,000 or \$15,000 for machinery, equipment and plant; and we think the factors which have gone into this fairly high rate of productivity since 1949 will continue. We chose 1949 by sheer necessity, because there was no other place we could look.

MR. LEPAN: I suppose we will all agree that productivity figures are notoriously open to misinterpretation unless they are carefully explained and hedged, as it seemed to me yours are; and also are notoriously difficult because the statistical material is often pretty vague.

My next question was about the statistical basis for your view of how productivity has been moving over the last five or six years. I am thinking, for example, of the percentages of increases that are listed in table 4. They yield results that run all the way from minus .8 per cent to 16.7 per cent on the plus side.

MR. MASON: Well, of course there you cannot blame me. You will have to blame Dr. Sutton; those are his figures.

MR. LEPAN: I was just wondering whether this very wide spread does not suggest not so much changes in the rate of increase of productivity as, on the other hand, a kind of statistical morass.



MR. MASON: Well, yes; of course take for instance the use of the index of non-agricultural salary and wage income to determine the imputed index of man hours. Obviously if you have a tremendous amount of overtime work the year after, your figures are going to go all over the place. Take 1946, where we have this astounding increase of 16.7 per cent. That, of course, is entirely due to the reduction in the amount of overtime during the war. You will notice, of course, that during war time his figures show very little increase in productivity, which of course would have the reverse effect.

I merely put in that table to show particularly the period between 1929 and 1939, when there would be very little overtime, to show the difference between what happens in the non-agricultural section. As I said, I would never use such a method of obtaining the number of man hours worked, and that of course is the reason. For the whole period from 1939 to 1946 I would state that the figures are not of much use.

MR. LEPAN: I would like to refer for a moment to one question which the chairman asked. On page 29 the opinion is expressed that we may be at the beginning of one of those periodic spurts in output per unit which seem to occur from time to time. Would it be fair to say that the estimate you are making about productivity, if your forecast of the gross national product is one that assumes that this spurt is going to





continue over the whole of the next 20 years -- that would seem to be rather at variance with the idea that is contained in the use of the word "periodic." If these increases in productivity are sporadic, then they can hardly be expected to last for 20 years.

MR. MASON: No. When we say "periodic spurts in output" what I was thinking particularly of there is this point that I think over the last two years it has been far higher than the figure we have used. For instance, you will notice that our rough estimate of what happened in 1953 indicates almost 7 per cent. Our opinion is that spread over the next 20 years it will be a minimum of  $3\frac{1}{2}$  per cent.

Of course we have no real way of knowing exactly what is going to happen, because we have never had a sufficiently long period of industrial history to compare; but it is interesting to note from some rough calculations we made during the peak years in 1926 to 1929 that once you get over that initial spell, when you are making the optimum use of your manufacturing facilities, productivity does appear to increase when you have full employment pretty regularly and steadily. Of course if you get new innovations coming in you will get really big spurts, and I think we are getting them now.

But our calculations are not



predicated upon these large increases in productivity which are taking place now and which we think will keep on for a few years, after which undoubtedly it will slacken off.

MR. LEPAN: There are also interesting comparisons drawn between the anticipated rate of increase in the United States and in Canada. On page 54, for example, this is said:

"-- there is good reason to believe that, at least in the long term, productivity will increase at a faster rate in Canada than in the United States."

Then on page 39 and on the following pages there is an explanation offered of why this might turn out to be the case. As I remember it -- and I am oversimplifying it, I confess -- it runs rather like this; that there is a correlation between productivity rates of increase and output, and there also is a correlation between output and population; and that the population of Canada will increase at a faster rate than the population of the United States. Then, working back, it is argued that there will be a faster rate of increase in Canada. It is also suggested that there will continue to be a large and important transmission of industrial techniques from the United States to Canada.





My question is this, whether or not the massive accumulations of capital in the United States and the opportunity of applying capital to the productive process, and also the head start in technology that the United States has and perhaps might be expected to continue to have, might be very considerable offsetting factors.

MR. MASON: As I stated, because of the extent of the ownership and control of Canadian industries I do not think Canada will be far behind in the application of those techniques. I believe the table I quoted, which I think is also one of Dr. Sutton's, showing the way in which Canadian productivity is advancing at a slightly faster rate than in the United States, bears out my own opinion that over the long term there is no doubt that productivity in Canada will increase faster than in the United States. I always do believe that in a young and growing country it will be so.

Mind you, I qualify that in one respect, that perhaps in the next few years that trend might be reversed with the newer techniques which are coming into the United States. For instance, because of their mass production markets these techniques can be introduced far more extensively than in Canada. Perhaps in the short run it might increase more in the United States, but I think over the long



period it will faster in Canada.

MR. LEPAN: The enthusiasm you show is an indication of the importance of the brief. You mention on page 44 the necessity of continued capital formation at a very high rate. Would it be fair to infer from this remark that you think if the levels of productivity that are mentioned in the brief are to be reached, there will have to continue to be a very large capital inflow from the United States?

MR. MASON: Yes.

MR. LEPAN: I might include Mr. Gervin within the orbit of my remarks, if I may, by saying that only yesterday afternoon we had a brief from one of the labour organizations here in Vancouver which expressed very considerable doubt about the wisdom of the degree of United States ownership and control that it was represented to us existed at this time, and I was wondering if you had any similar worries.

MR. MASON: Yes. Let us put it this way, that I think as far as the average Canadian workman is concerned we want to get ahead, we want to improve our standard of living, and we realize that young countries always receive capital imports from older and well developed countries. There is also another point, I think; that is, that Canadians save





a tremendous amount of their incomes. I do not know how they do it, but the latest figures I saw were astonishing. I think Canada saves more of her income than almost any other nation.

MR. LEPAN: That is perhaps to be related to the Puritan streak you mentioned.

THE CHAIRMAN: And it is not in that case restricted to Ontario.

MR. MASON: The point is this, that I think there will be a tremendous amount of capital available in Canada of the wrong type. Canadians are very cautious investors. They save up for their old age; and the life insurance companies of course cannot take too big a risk, though there I think they should be allowed to diversify their holdings.

Coming back to the question of United States capital, I make no bones about it; we do see some dangers there. We see it particularly where, for instance, Canadian industries may be controlled by Americans and we supply what might be called the marginal requirements of the United States. If there is a recession there we are the first to suffer. We see those points and we are rather disturbed about them.

The one point about United States capital in Canada that I will not say we are too fond of is what I might call the direct investment rather than the portfolio investment. We do think



that where these firms are established, a larger measure of ownership and control by Canadians would be a very good thing. But this is my opinion and, as I say, other people may hold different views. I must emphasize that it is purely my opinion; I do not think the average Canadian wants to cut off his nose just to spite his face on that point. Would you agree with that, Mr. Gervin?

MR. GERVIN: Yes. I do not know, but it seems to me that if the country is going to be developed we must have capital to develop it; and if Canadian capital does not want to risk it, then we must have capital to develop our country and it must come from somewhere else.

MR. GRAUER: Before you adopt that cliché that Canadians will not buy equities, I wish you would look into the amount of money that Canadians put into speculative mining, oil and uranium stocks.

MR. MASON: Yes, but apparently not enough.

MR. GRAUER: Personally I find that if you have a common stock and wish to sell, the public will buy it. I think the trouble is the other way, that there are not enough equities going on the market. That is largely because the blue chip companies are financed through internal resources, retained earnings.

MR. MASON: I hate to disagree with



you. I do not know exactly the percentage of the capital that was invested by the institutions in Canada, but I think it could be higher by 50 per cent or 60 per cent or more. Certainly they have large sums available for investment which cannot go into equities.

MR. CHAIRMAN: Because of the existing legislation?

MR. MASON: Yes. I will admit that you have quite a number of individuals who are quite prepared to gamble in mining. I do not deny that, but it is my belief from what I seen in other countries that there is a great shortage of equity capital all over the world; it is not just a question of Canada. I would think that small industrial firms would find a great deal of difficulty in financing expansion by placing, shall we say, shares on the market. I do not know whether I am correct in that assumption, but I would believe that the small and medium sized firm would find a great deal of difficulty in getting capital outside in the market.

MR. GRAUER: That is the belief, but we questioned a financial person yesterday afternoon on this very point and he did not think that was so and he instanced cases of small companies. He mentioned one particular case right here, locally, in which the amount of stock purchased was over \$500,000. That is one of those





things I think we could put down for further investigation, but I just did not want to have you assume that.

MR. MASON: Then may I ask this question. If there is this amount of money --

THE CHAIRMAN: We are looking into it.

MR. MASON: I would like to make one observation. If there is all this amount of risk capital in Canada, why on earth is all the risk capital coming from the United States?

MR. GRAUER: One reason is that many of the big companies that are in our resource industries are United States companies, and they do not put any common stock on the Canadian market. There is no way of purchasing their shares. Outfits like Dupont, or even International Nickel; they do not float local issues.

MR. MASON: The point I was getting at was this; that if there is this, shall we say, satisfactory amount of risk capital in Canada, why do not Canadians develop these industries in the first place?

MR. GRAUER: There are two different points. One is that Canada is a young and growing country and needs outside sources of capital along with its own internal sources. That is granted. But you went further, to say that Canadians were a conservative people who would



not put their money in common stocks. That is what I am taking issue with.

MR. MASON: I am not saying all Canadians, but I would think most of the capital that is available in Canada is non-risk capital, or risk-avoiding capital. I will have to be convinced the other way, but perhaps your commission will convince me in its findings.

MR. GRAUER: I think that point needs further study before we arrive at any conclusions.

MR. LEPAN: May I ask two final questions. Lying in the folds of this argument are various assumptions. Some of them are brought forward quite prominently; some are not. In order to make a forecast of gross national product there has to be some assumption made of the level of unemployment that may be anticipated over the next 20 years, and I was wondering what sort of level you were thinking of in making your forecast. That is, what will be the percentage on an average of those in the labour force who are without a job and looking for work?

MR. MASON: There I think we have been very conservative indeed, because our assumptions were predicated on the estimate that the level of unemployment probably would be no higher than it has been for the past two years, which we find to say the least very unsatisfactory.





I do not say for a moment that you should have statistics showing no one unemployed, but we do believe that once you start getting above the  $2\frac{1}{2}$  per cent to 3 per cent mark, as shown by official statistics, it is definitely cause for concern.

We realize that there will always be some unemployment, but we feel very strongly on this point, because we do believe we must do something to increase the percentage of the labour force that is employed. The position is far from satisfactory as far as we are concerned. Would you not agree, Mr. Gervin?

MR. GERVIN: Yes. Then too, of course, there is some unemployment that is never registered at all. I have in mind the hundreds of skilled people who will be out of work for a period of time, days at a time -- and this happens quite frequently -- who are out of work for days between jobs and perhaps are never registered with the employment service, never registered for unemployment insurance at all. These people are not anxious to be unemployed; nevertheless they are unemployed and producing nothing during those periods, which of course is not their fault. We have no record of those people, along with the hundreds of thousands of others whom we do have records on.

MR. LEPAN: I was wondering if we might take a leaf out of your book when we come



to this issue and say nothing explicitly about the assumptions we are making. You will see there is a real difficulty here, because on the one hand to be realistic you must assume there will be some unemployment. I am not referring to any page; I am referring to the fact that you have not made it explicit anywhere.

MR. MASON: We have taken what we think will be the rate of increase in productivity.

MR. LEPAN: I think you have answered my question. I am not complaining at all.

MR. MASON: As I say, who can forecast the number of hours worked, for instance? I have fair ideas on that myself, but we do not know the policy of the government. I think you will realize that we stated in the beginning of the brief that we are not predicting what will be; we are predicting what can be, because no one can predict what will be.

MR. LEPAN: My question was whether the goal we should aim for is a percentage of unemployment of one per cent or two per cent or perhaps even slightly more.

MR. MASON: I will put it this way. Above 3 per cent we would start getting worried. I think when it is running about 2 per cent that would take care of fringe unemployment, and there is always a certain amount of that. For instance, there may be jobs in one part of the country and



there may be jobs in one part of the country and not in another; but there again we think any hardship can be taken care of by unemployment insurance, which we believe is too low.

I might just express our views on this particular point; that we emphatically disagree with those people who think these people are looked after by unemployment insurance, which provides perhaps 60 per cent or 70 per cent of your earnings. I could not disagree more heartily with that philosophy, for this reason; that the additional 30 per cent of earnings of the workmen makes his life worth while. I would suggest that 60 per cent of his pay is taken by what you might call his fixed costs; looking after payments on his home and the bare necessities, and we believe unemployment insurance should be higher than it is.

MR. LEPAN: My last question is this. You have said that what you anticipate or what we might strive for could be distorted by influences coming from outside, and indeed have suggested that for the purposes of this brief -- and we will all agree that you have to make exclusions -- you have almost been treating Canada as a closed economy.

I wondered if you would like to make any brief comments on how this analysis might be altered if you would bear in mind that Canada is in fact a very open economy.





MR. MASON: Yes, I would like to say a few words on that. For instance, it is my personal belief, and a very sore point I think with a lot of people, that in aiming for the elimination of tariffs or getting lower tariffs I think we are flogging a dead horse. I do not think there is any hope whatever that over a period of years you will get a reduction in tariffs.

I think there was a very good suggestion made by someone regarding tariff policy, which was that Canadian goods be allowed to enter the United States on the same basis that their goods enter our country.

However, I do believe this point, that we should have a more self-sufficient economy. I do think our economy is far too open at the present time. That is a question of tariff policy. It is a hot potato; but we do believe that a more closed economy for Canada would be more beneficial to all concerned.

Belonging to the labour movement, we are well aware of the benefits we get from international associations, but we do think the economy is too open. We believe it should be far more closed than it is. I think our imports, or shall we say far too great a percentage of them, are machinery, iron and steel products. We do think perhaps more iron and steel products which are imported from the United States could be



made here in Canada. But, as I say, although they have not been conspicuously successful, that is the employers' baby. They have more influence at Ottawa than we have, and if they cannot get anything out of the federal government I do not think we could. I repeat that I think our economy is far too open.

MR. LEPAN: Thank you very much. If my questioning has been rather over-extended, over-detailed, I hope you will regard it only as a measure of our uncertainty about a good many of the issues you have raised, and our appreciation of their importance, as well as our gratitude to you for your brief.

MR. MASON: You must remember one point that I would like to state, and it is this. Unlike many business organizations and trade organizations, our facilities are very limited. We have not been able to deal with all the complexities we would like to have done. That is, it was a question of time and facilities; therefore we could not go into the detail we would like to have gone into, but we did the best we could.

MR. LEPAN: I do not think any apologies are needed.

MR. STEWART: On this last point of the open or closed economy, is it your position that we should take deliberate action in order to close it?





MR. MASON: Yes.

MR. STEWART: Does this mean, then, that really you are prepared to buy a short-term advantage of greater stability at the expense of the gains of international trade?

MR. MASON: I am sorry, but I did not hear the last sentence.

MR. STEWART: Would it be fair to say, then, that you are prepared to buy the advantages of short-run stability at the expense of the gains of international trade?

MR. MASON: Yes.

MR. GRAUER: I would like to ask a question to elicit your opinion about a problem of some importance, I think. The rather dramatic projection of productivity is based upon the years 1949-55. During that period I think the productivity of the United States and Canada has been one of the wonders of the world. It has surprised all nations. When we travel in western Europe or Great Britain we hear reference to this all the time; in fact one English economist and publisher refers to it as the American break-through. Just as we broke the sound barrier in a sense on this continent, an economic barrier apparently has been broken also.

That is not shared by the rest of the world. This continent also has by far the highest standard of living in the world, and



the gap is being widened. We are pulling away from the rest of the world.

The suggestions for using the increased productivity that has been projected were, as I gathered, chiefly along the lines of reducing hours of work, earlier retirement, higher pensions and that sort of thing. Do you think there is any danger in the increasing disparity between the standard of living in North America and that in the rest of the world, having in mind in particular the problems of the underdeveloped countries like India and Indonesia and perhaps the South American countries which are trying very hard to industrialize, but which of course are finding that capital is very scarce.

One thing we could do with our increasing productivity, to some extent, is to make some of its fruits available to these underdeveloped countries for their industrialization programmes. I am not expressing any opinion; I just wondered what your opinion was in this field.

MR. MASON: I will give one opinion, which is given as a personal opinion and which does not reflect that of the union. I suppose I am allowed to express a personal opinion?

MR. GRAUER: That is up to Mr. Gervin.



MR. MASON: Well, regarding the development of undeveloped countries -- and I am particularly thinking of a country to which reference was made yesterday -- I am by no means convinced that by developing those particular countries we are not really digging our own grave. With regard to other countries such as India there is always this point to be taken into consideration; that if you increase the productivity of those nations by aiding agriculture and by, shall we say, public health measures, the population seems to keep on increasing and you are back where you started. That may be only a short-term effect, because I do think once you get up to a certain standard of living, then automatically the birthrate drops. That seems to be so in most countries. But I don't know; it is a problem as far as I am concerned. I do not know what the Congress opinion is on that.

MR. GERVIN: I do not think the Congress has expressed an opinion, but I say this to Dr. Grauer, who drew attention to the high standard of living on this continent and said it would have a detrimental effect in the other countries where the standard of living had not increased accordingly. I do not see why it should. As far as I can see, over a period of years we have had a considerable difference in the standard of living in the various countries





and what we have had on this continent. Why should the fact that we continue to improve our standard of living here affect other countries detrimentally? I do not see that. I think that is the answer I would give to your question.

MR. GRAUER: That is fine. You do not think there is any danger.

MR. GERVIN: I do not think so.

MR. MASON: You referred to the break through the sound barrier on this continent. I believe there is a simple explanation of that, and that is the attitude both of the North American businessman and the North American worker. I can speak regarding workmen with perhaps some experience, because I have lived in a lot of countries, and it never ceases to astonish me the way workmen on this continent do work, and the way in which they are prepared to work with new machinery which, in the short term, is shall we say reducing the amount of labour required. I think perhaps all of you are familiar with some of the featherbedding which you get in both Australia and Great Britain, under which if a new machine comes along with which one or two men can do the work previously requiring 12 men, you still have to hire the other 10 and they sit around and do nothing. I think the increase in productivity on this continent has had a great deal to do with the attitude of labour.



MR. GRAUER: Maybe the force of the example will bring along the rest of the world.

THE CHAIRMAN: Well, thank you again, Mr. Gervin and Mr. Mason, not only for this excellent brief but also for the way in which you have answered these many questions.

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---Recess.





--- After recess.

THE CHAIRMAN: May we come to order, please. The next submission, which we will mark exhibit 97, is from the United Fishermen and Allied Workers' Union, Mr. Stevens and Mr. Wrigby.

MR. WRIGBY: Mr. Chairman and members of the commission, I have been asked by Mr. Stevens to introduce our brief. I have no intention of reading any portion of it.

We have made no attempt, as is obvious from the brief, to join the ranks of the association of crystal gazers. Frankly we do not know what will be the condition of our fisheries in 1975 or 1980, but we have some definite opinions about what we hope will be in the report of this commission in 1956 and will be implemented by our government perhaps more speedily than other reports of other commissions, in order that 1975 or 1980 may be a year worth looking forward to with some anticipation by those whose livelihood is dependent upon fisheries on this coast.

I do not think I need to emphasize that the fisheries of British Columbia are a very valuable national resource. Of these fisheries the salmon fishery is much the most important. From two-thirds to three-quarters of the manufactured value of fish production comes from the salmon fishery; so



in whatever I say now, unless I specify otherwise I am speaking of the salmon fishery, because without the salmon fishery we would not be a fishery province and it would not play such an important part in the total fisheries of our country.

This resource was not created by man. It can be augmented by man and it can be destroyed by man, by man-made policies or by lack of policies. We could permit the salmon resource to be destroyed, and it would not be very difficult at all to have salmon in the situation that we now have the buffalo. I do not know; I never ate buffalo meat. I do not know if I am missing anything, but as a salmon addict I certainly feel that no other fishery can replace the value of salmon production to our province and to our country.

So we are giving a programme of measures to augment and conserve the resource we have in perpetuity. Certain measures were proposed in the brief which was presented yesterday by the Fisheries Association, certain things that could serve to augment the salmon resource, with the hope and the possibility of even doubling it within the next 25 years. We do not disagree with that hope, and we would not like to be interpreted as casting any shadow of doubt upon its possibility.

We do believe that the expenditures



at present on research, and the capital expenditures which would be required to augment the resource -- hatcheries, artificial spawning beds, stream clearance -- we do not think sufficient is being done at the present time to augment that resource. We think more should be done, and we base this on the realistic possibility of increasing production.

The increase in production would of course lead to increased taxation revenues to the government which would later justify these capital expenditures; and I have no doubt in my own mind, although I have not asked anybody, that if the government were to undertake certain capital expenditures that can only be undertaken by governmental sources, owing to the nature of the resource, the industry as a whole would not be opposed to the redemption of those capital expenditures from the augmented returns. I am sure that could be easily worked out.

Frankly, at the present time we are very concerned about the fact that it is taking us all our time not so much to augment the resource as to prevent it from being depleted. If we were to realistically examine what is happening at the present time, the first note of alarm, it seems to us, that we should feel is that conservation of the resource -- and there are a whole series of methods in that direction -- is required in order to have any





hope for augmentation, and that capital expenditures should be looked upon also as necessary not merely for the hope of augmentation but purely from the point of view of retention of the resource that we have. It seems to take us all our time to prevent the resource, which cannot be replaced if it is destroyed, from being depleted and destroyed.

I do not know whether you noticed in yesterday's newspapers an item about the sockeye fishing facing a severe restriction on the Skeena river. The proposals that are going to be discussed as a result of the recommendations of a commission are for a six weeks postponement of the opening of the sockeye season. That is not a postponement, not a question of starting six weeks later and finishing six weeks later. They propose a reduction of the working time of the fishermen by six weeks, which is a 40 per cent reduction of the reason for the second major salmon river in British Columbia. The 1955 sockeye salmon were slightly more than 300,000 fish, much less than we expected and inadequate to effect rehabilitation.

Unless exceptional seasonal developments occur, the 72-hour closed period will remain in effect. Right now on the Skeena you have four days of fishing and three days with no fishing, in the interests of conservation. They are going to retain that, and there is a possibility that there may be



another day with no fishing, cutting the fishing time to three days and reducing the season.

That is certainly a very drastic reduction. There are, as is mentioned in our brief, in a considerable number of areas restrictions which frequently -- all too frequently now -- mean that you have three days fishing and a 96 - hour week end, a closed period. That is a long week end. We have nothing to do with our leisure at that time. As fishermen we do not talk in terms of a 30-hour week. That might be the average for the whole year, but during the fishing season we have to put in a certain amount of time in order to get certain results.

MR. GRAUER: Were there any slides on the Skeena or its tributaries? What were the reasons for this limitation?

MR. WRIGBY: It is believed that there have been slides which are immediately responsible for the more drastic restrictions at the present time; but the fact is that the Skeena fishery was declining or decline and a cause for concern even before the slides, requiring drastic conservation and rehabilitation measures.

So in order to conserve fish we have to drastically restrict our fishermen. We have to prevent them from working. We have to cut down seasons. We have to limit





escapement. We have to see that under all circumstances sufficient fish are permitted to go to the spawning beds to reproduce themselves in perpetuity. We accept that. Our union accepts it. We fight against poaching by our own members, in the general interest; and we have had some success in that regard.

It is natural, then, since the industry itself must lead in this conservation, that we should ask that unnecessary damage by other industries and activities should not be permitted to destroy the resource -- logging, power, pulp and paper; and now there is some fear of pollution of the water by the effects of radioactivity. I will not elaborate on these in regard to power, but I would mention the situation on the Skeena.

Then on the third most important river, the Nass, there was a proposal a short time ago by the Frobisher interests, with the suggestion of utilizing the Nass in a way that would be harmful to the fisheries, which could not assure perpetuation of the fisheries. We are very concerned about that. We are concerned about the too-ready willingness of Mr. Eddy Kilowatt to develop at places where he may destroy a resource that cannot be replaced. There are suggestions at various times in regard to dams on the Fraser, which we feel would endanger the resource.



We believe we can have fish and power. I will not elaborate on that; it has been done in our brief and also in the brief of the Fisheries Association. We believe also that fish is power, if not brain power it is manpower, and it is a very valuable resource that is irreplaceable once destroyed.

And if we are to restrict our fishermen and control other activities in their developments so they do not unnecessarily harm the fisheries, then we must also be concerned by the fact that our fishery resource can be damaged by other countries. There would be no point in spending money to preserve the resource and restrict our own people, and then permit a considerable damage to be done by other countries.

We are very concerned about this mid-ocean fishery that has grown up in the period of four years to 65 million taken by the Japanese. Our union strongly opposed the fisheries treaty with Japan and the United States, though we are sorry that our worst fears have been realized so soon.

The theory upon which that fishery is taking place at the present time is that a line has been drawn in the mid Pacific. The Japanese have undertaken to voluntarily refrain from fishing on what is called our side of the line, and an investigation is going on in regard to whose fish they are taking, whether it is the



fish that would come to our rivers or the fish that would go to the Siberian rivers.

MR. GUSHUE: Whether or not the fish have been domiciled in Canada?

MR. WRIGBY: Yes. I say we opposed it at the time, but the scientists say they are not sure yet whose fish is being taken, whose ox is being gored. They are hopeful that the line was drawn in the place where they are taking the Siberian fish. Meantime the actual catches, accompanied as they have been this year by surprisingly poor results in our salmon fishery and by the results in Alaska, are a serious cause for alarm for our fishermen.

As you will note in our brief, we believe it is absolutely essential that whilst the investigation is continuing as to the source of the fish that are being caught, there must be some restriction in regard to the quantity that can be taken during a period when everybody admits that they cannot be sure.

We are also concerned over the question of territorial waters. We made certain representations at an earlier time, when we were opposing the ratification of the tripartite fishing treaty, before the standing committee on marine and fisheries of the House of Commons, which I shall read since it is not contained in detail in the brief we submitted.





We asked that action be taken to proclaim, establish and uphold a Canadian doctrine of territorial waters for our Pacific offshore fisheries in harmony with our national interests and consistent with modern concepts of proper protection of coastal fisheries under international law.

"We therefore ask this committee to recommend to the House of Commons

(a) the proclamation by Canada in legal form to all countries of the boundaries of our territorial waters on the Pacific coast."

We spoke about the Pacific coast; we felt that was what we understood best, but we would not be opposed to the inclusion of the Atlantic.

"(i) This proclamation to be based on the Norwegian method of establishing base lines from which territorial waters are measured, as approved by the recent decision of the International Court at the Hague.

(ii) The width of the belt of territorial waters from the base



lines to be proclaimed as Canadian waters for purposes of fishery protection to be not less than nine miles (the Mexican limit) or more than the extent of the continental shelf adjacent to our shores."

In the brief we have pointed out that anything between those two would be an advance, and that 12 miles, which is what is supported and adopted by some other countries would also be acceptable.

"(b) To the extent that U.S. fishing vessels have in the past exploited the resources of portions of these Canadian territorial waters, no change in the status quo will be instituted for such vessels, except by mutual consent and agreement between the governments of Canada and the U.S.

(i) Where treaties between Canada and the U.S. provide for joint conservation and recognition of fishery resources (e.g. halibut, sockeye salmon) in certain of these waters, such treaties will remain in full force and effect."





(ii) Where no treaty or other agreement exists between Canada and the U.S. for the conservation and regulation of any fishery resource in these waters, Canada to reserve the right to enforce against U.S. fishing vessels any regulation or order in the interest of conservation which is applied to Canadian fishermen.

(c) The right of any state to proceed in the same manner to determine the extent of its territorial waters in the interest of conservation of fishery resources upon which its population is dependent to be recognized by Canada."

I could elaborate on that but I shall refrain from doing so because of the time factor, except to refer to the last point, where we say:

"Where no treaty or other agreement exists between Canada and the U.S. for the conservation and regulation of any fishery resource in these waters -- "



We are thinking particularly in regard to the pink salmon, where we have been advocating that every effort be made to obtain a treaty for joint conservation with the United States. We think the proclamation of these zones, which is in line with what other countries have done for fishing purposes, would actually facilitate the conditions under which such a treaty, which we have long been striving to obtain, could be obtained.

For the remaining portion of my limited time I would like to deal with one matter upon which there is a head-on collision in a few points as between ourselves and the Fisheries Association. That is the matter of licence limitation for fishermen. In their brief they stated:

"Essentially the problem as to the most efficient way to harvest fish is of a social nature. The number of fishermen will increase if the livelihood derived from fish is equal to, or better than, that from other sources of employment or is more attractive to the self-employed than other lines of endeavour. Conversely, if the returns from fishing do not permit the fishermen to earn a



satisfactory livelihood in relation to that obtainable elsewhere, the numbers will tend to decline."

In other words they use an automatic process and say it has always been this way; that the numbers of fishermen depend upon whether you can earn more in fishing than elsewhere, and we do not think that is the case at all. This theory of automatic adjustment of supply and demand, or of a man changing industries, studying all industries and then deciding where the returns will be better, we do not think economics work that way at all. Our experience is that, as we stated in the brief, with licence limitation generally speaking the number of fishing licences issued has been increasing in good times and in bad. At the same time the number of persons describing themselves in the census returns as fishermen has tended to decline. There is a table in the supplementary brief, and it is understandable why this should be so.

For example, during a period of depression, precisely because of the peculiarities of this industry; precisely because a man is a workman who is sometimes in some sense self-employed; precisely because the fisherman does not fit into any clean category as an independent contractor or workman though we consider he is





a workman fundamentally; and precisely because you can go and fish if you have some kind of bait or some kind of net -- under such circumstances, when unemployment comes or under conditions of economic decline, this is one industry where the numbers do not decline because you can sometimes get some fish without finding an employer. It does not work automatically at all. You do not see a rise and decline. The trend seems to be an increase in the number of persons getting something out of the fisheries and a decrease in the number of persons getting a full time livelihood out of them.

We suggest that that situation as it pertains to salmon, which is the most important fishery, requires recognition; requires at least the acceptance of the necessity of developing a workable plan for some measure of licence limitation; because if you restrict, as you are necessarily and justifiably compelled to restrict, the fishermen in order to retain the resource, then the alternative to having some form of licence limitation, some ceiling on the number of persons and the number of pieces of gear that will be allowed in the water is to share your poverty, which happens and can happen; or under certain circumstances an increase in the cost of production. In spite of the improved methods of fishing, improved nets



and all the rest of it, you cannot increase the total production; and if the number of units using these improved methods increases, all you are doing is increasing the cost of production, and if the fishermen are organized well enough they pass that on to the canners and to the consumers, and that is one of the reasons you had strikes on this coast.

Actually in the last few years you have been getting a combination of both. We increased our prices for salmon last year but our returns were poorer, because there were fewer fish. We can agree only with one statement in that section of the brief of the Fisheries Association. They say:

"Essentially the problem as to the most efficient way to harvest fish is of a social nature."

We agree with that. As we put it on page 8 of our brief on licence limitation, we say:

"Licence limitation is thus intimately connected with the need and consequences of fisheries conservation, but it cannot be considered solely as a problem of conservation of fish. It is





a social question; how to conserve the producer and protect the consumer when the fisherman can no longer increase or even maintain real earnings by increasing total production. The purpose which any system of licence limitation must serve under present circumstances is to provide maximum employment consistent with adequate earnings by Canadian standards and at reasonable costs, while maintaining adequate stocks of fish in perpetuity."

That has been recognized. We have quoted Chief Justice Sloan in our brief, when he was conducting an investigation in 1940. He was not instructed to deal with this matter of licence limitation, but he stated from what he learned of the industry in connection with those industries he was instructed to investigate:

"There must come a time, if it has not already arrived, when because of increased gear in the Fraser area and more intensified fishing, the individual return of each fisherman will diminish to that point where



the number of licences will require adjustment either by the department or the industry itself."

Dr. J.L. Hart of the fisheries research board, in a report submitted to the government in 1946, stated:

"If the standards of living of fishermen are to be maintained at a reasonably high level, limits on the number of fishermen will have to be imposed on operators of all types of gear."

Those are statements by people well acquainted with the problems of our industry; and I would like to point out also that in other places, licence limitation in fisheries is in effect. Recently in the Canadian Fisherman of April, 1955, in an article headed, "New Zealand Lobster sells well in North America" speaking of the development of the lobster industry in New Zealand, which is a new fishery, this is what they say:

"However, to protect the interests of those whose livelihood is full-time commercial fishing, the marine department is now



adopting a policy of not granting a lobster fishing licence to those who take up commercial fishing only in the lobster season."

They do not want to have an influx of large numbers of people getting into that one fishery, which may be quite a profitable fishery for the time being. People who come into a fishery in that way create enormous difficulties, because they have no interest in the perpetuation of the industry or in measures of conservation.

At one time I heard that the state of Maryland had licence limitation, and we wrote to them. I will not read their act, but this is the explanation we received:

"The Maryland law was passed originally with the full support and backing of the commercial fishermen. As a matter of fact their efforts contributed largely to the passage of the measure.

Two aims were paramount in adopting this legislation. Firstly, it was realized that such fishing would allow more spawning and





enable the state to restore several badly depleted species without seriously curtailing the individual efforts of the fishermen. The law prevents new persons coming into the fishery, thereby preventing more fishing or a declining fishery, and will ensure that those already in the fishery can continue to operate.

Secondly, when fish are very plentiful in Maryland it has been the practice for many new persons to engage in fishing. The net results in the past have been glutted markets, low prices, and a rather sudden drop in production when the majority of the fish have been caught. This wide fluctuation in production has contributed to the instability of Maryland fishing. It was thought that this measure would eliminate these 'in and out' fishermen -- "

We call them the holiday fishermen on this coast.

" -- spread out production and



maintain a better price to the fishermen."

MR. GRAUER: Part time fishing is not a problem on this coast?

MR. WRIGBY: Yes, it is. That is explained to some extent in our supplementary brief.

MR. GUSHUE: The census figures show that to some extent.

MR. WRIGBY: Yes, and particularly on the Fraser river. That is what the fishermen resent very strongly, the holiday fisherman, the man who takes his holiday from another industry on pay and spends it fishing commercially. We do not think the commercial fisheries should be open to such persons; or the other individual, who fishes one day a week because he is working at another job the rest of the time. There is all those types of problems.

We do not believe licence limitation is justified as long as there is no need for conservation; as long as the amount of fishing is not depleting the resource. But when the resource is being depleted, when it must be regulated, when it must be restricted as to the length of the season and things of that kind, then a situation arises in which a maximum number must be fixed for those to whom licences will be issued.





It is done in other industries. For example, I understand that in British Columbia you cannot get a brewery licence. There are restrictions; not that I am intending to apply for one. In other occupations that is also so, and we think the nature of the situation requires it in connection with salmon.

Some of the points which were made yesterday in reply to your questions, Mr. Gushue, by the representatives of the Fisheries Association -- he said, for example, what about a fisherman's son; if you have a licence limitation how would a fisherman's son be looked after? We have pointed out in our brief on licence limitation an answer to that, and we gave it a long time ago. It is on page 11:

"Without pre-deciding the system of licence limitation that would be best fitted to meet the needs of the present situation in the salmon fishery, certain objections sometimes heard are answered immediately by the mere fact that any system introduced would apply only to salmon fishing."

We are only pressing licence



limitation for the salmon fishery, not for the other fisheries.

"You would not have a closed door to the fisheries. Whatever limitation system was introduced in the salmon fishery, the door would be open for new and younger entrants to become fishermen. The fishery house would remain open; the salmon room might be temporarily closed for repairs and renovation.

The temporary closure of one entrance to the fishery industry might be considered a positive gain from the viewpoint of providing the most suitable training for new fishermen. The salmon fishery is by its nature conducted closer to shore, in more sheltered waters and mainly in the summer. It is simple for a winter fisherman to go out on salmon. The contrary is by no means generally the case. So a system whereby every new entrant into the salmon fishery had to serve an apprenticeship in other fisheries before he could receive a salmon licence would be



conducive to training our future fishermen to be all round fisherman rather than confined to a single summer fishery that presently attracts the most new entrants simply because it is the largest and most easily accessible."

In other words, just as in New Zealand you can get a lobster licence if you are fishing for things besides lobsters, a similar approach could be adopted here. We do not believe the commission would present any plan for licence limitation in its report.

THE CHAIRMAN: Good.

MR. WRIGBY: As Mr. Harrison said, this question has been kicked around a long time, and that seems to us why at some stage a stand must be taken. We do hope this commission will be able to recommend the means of finding a plan accepting the principle of the necessity of licence limitation in conditions such as we have outlined. Perhaps at the best this commission could, if it were sufficiently convinced of the urgency of the matter, suggest a moratorium whilst the plan is being worked out, whereby no new persons who have not previously had a fishery licence for other fisheries, would be able to obtain a salmon licence.





I think the only other matter upon which I did intend to say something was the question of markets, but in view of the time I will confine myself to summarizing our viewpoint in one sentence. We believe that Canada is a dollar country and should be in the sterling area and be prepared to trade with all countries where it is beneficial for us to do so.

THE CHAIRMAN: Thank you.

MR. GUSHUE: I think you recognize, Mr. Wrigby, both in your brief and by your remarks, that the question of licence limitation is a very complicated one, and the suggestion is made here that a body ought to be appointed to study the whole question. That is really your recommendation?

MR. WRIGBY: Well, to be frank, we did not have this in the original draft of the brief. Then shortly before the commission came here we had an interview with the deputy minister of fisheries and asked him what was being done with this brief and we were told it was still being studied, that there was a lot in it. It was the deputy minister of fisheries who suggested or who felt sure that the department would welcome a recommendation by this commission and suggested that we present it here.

I am inclined to believe that the



thinking behind that is simply this, that it is an important matter from the viewpoint of this resource. I would not expect this commission to work out a plan; but I think from the viewpoint of perpetuating the resource, what we have said and further study could lead to a recognition that there must be a plan worked out.

MR. GUSHUE: Your recommendation is that there should be further study by a competent body on this particular point?

MR. STEVENS: I think the situation is that if this commission would recommend that a plan be drawn up, that would satisfy our immediate objective.

MR. GUSHUE: It is rather a study than a plan, is it not?

MR. WRIGBY: Not a study as to whether we need it.

THE CHAIRMAN: I think we get your point.

MR. GUSHUE: There is a point you raise about the freedom of the seas. You make a very refreshing reference to it on page 6 of your brief, where you suggest that the freedom of the seas has a good deal in common with piracy. I am not too sure that that would be accepted by international lawyers, but I take it that you do realize that the extension of territorial waters even to the lower limit you





suggested of 10, 12 or 15 miles, or out to the continental shelf, which of course would be the most useful one, would have to be a matter of agreement among countries; or, alternatively, that any country which proclaimed such extended territorial waters would have to be in a position to support that claim by force if it could not get agreement.

MR. STEVENS: On that point, a country like Iceland has proclaimed its jurisdiction --

MR. GUSHUE: To a very limited degree.

MR. STEVENS: Very extensively in some ways, because their adoption of a base line encompassing wide open bays --

MR. GUSHUE: From headland to headland?

MR. STEVENS: Yes. That made a terrific difference; and I do not think Iceland would be in a position to take on Great Britain in a war. Nevertheless they were able to control their waters.

MR. GUSHUE: Iceland has very broad, shallow bays. I do not think you would get the same effect from the same language on the Pacific coast.

MR. STEVENS: We have Hecate strait, which is a strip of water 50 miles wide running from the 54th parallel right down to the



top end of Vancouver island, which is quite shallow and is fished extensively by American vessels; yet we consider it should be Canadian territorial waters. Using the base line there would make a terrific difference even without the extension to say 9 or 12 miles, and it seems to us that it is not so much a question -- there is no international law. I studied this question quite thoroughly in making our presentation to the standing committee on marine and fisheries at Ottawa, and there is no such thing as international law about three miles.

We use the word "piracy". How did the three mile limit come to be accepted? Because a cannon could shoot for three miles and keep the pirates off. Other countries have changed it. They may have to use a bit of coercion at times to patrol the water and keep other fishermen out, but we do not see why Canada has to wait until every other nation has done something before we can take a step in that direction. We have important fisheries off our coasts and other nations are engaging in them. We should be a nation interested in extending our coastal waters and not be like other nations which are depleting their fisheries.

MR. GUSHUE: You think failing agreement Canada should do this unilaterally?



MR. WRIGBY: Very definitely.

MR. STEVENS: And could do it by proclamation. Quoting S.I. Riesenfeld in a report on the international law, he says:

"International law must  
and does recognize the right -- "

MR. GUSHUE: Is that the right to conserve or the right to fish?

MR. STEVENS: The right to control the rate of exploitation. On the Pacific coast so far there are just ourselves and the Americans, and the sooner we take a stand and issue a proclamation before there are others coming within the three miles, the better and the more protection we will get. I understand it is more difficult where there has been an international fishery, say, as there is on the Atlantic.

MR. WRIGBY: I would like to give you an example which will bring it out more clearly. Up to a few years ago there was very little in the way of crab fishing in Hecate strait, in this water between the Queen Charlotte islands and the mainland, by any foreign vessels or Americans. It was practically non-existent. Just in the last few years they have started to move into that fishery, and now will be claiming a sort of historical right. Until we start to move in the opposite direction we are going to have more encouragement of American





fishermen and possibly those of other nations.

I think the condition on the east coast, where Canadian trawlers are forced to fish 12 miles off shore while United States trawlers can come within three miles, is getting beyond the point of being sensible.

MR. GUSHUE: That does not apply on the whole of the east coast. I think your point is perfectly clear. I am rather doubtful that you would get the United States to participate in it.

MR. WRIGBY: We got the idea from Mr. Truman, who in 1946 proclaimed the right of any country to establish fisheries zones off its own coasts. In claiming that right for the United States he agreed that other countries had the same right.

MR. GUSHUE: I think you have to read that a little more closely. That is a right to practice conservation.

MR. WRIGBY: He has back-tracked since and gone to the three mile limit.

MR. GUSHUE: That is a right to practice conservation, not a right to fish. The United States has repudiated what other countries have done on a misinterpretation of that statement.

MR. WRIGBY: Yes; when others take them at their word and do it.

MR. GUSHUE: They did something a



little different.

MR. STEVENS: We might not have the United States on our side, but I think we would have a lot of other nations in the Americas; Mexico, Peru, Chile, Ecuador and similar nations.

MR. GUSHUE: I think you probably would; but they are smaller nations, are they not?

MR. WRIGBY: In some respects, as far as population is concerned. That is why we need to protect ourselves.

MR. GUSHUE: On the question of protection of your rivers, conservation and so on, are you satisfied with the direction of the present activities along these lines? I am not speaking of the extent but of the direction. Is it your point that you would like to see what is now being done intensified, or have you any quarrel with what is now being done?

MR. WRIGBY: I think that is the basic view; that we agree with the fishways being built, the attempts being made to establish new spawning grounds or artificial spawning grounds, and work in that direction. Possibly the one place where there has been less attention paid and where there should be much more attention in future is in the development of logging and how it is affecting





the fisheries.

For instance, I would mention the flash floods we had here just recently. There was a quotation from the chief supervisor of fisheries that those flash floods cost the salmon industry \$3 million to \$4 million, and we can anticipate more flash floods as the mountains are denuded of their timber. We think there should be more concentration on that aspect as well as all the others. There could be a lot more capital investment in seeding, in seeing that the seed grows up, and so on.

MR. GUSHUE: Does your association feel that any industrial developments which might endanger the salmon fishery ought to be prevented, or would there be a balance arrived at in looking at the possibilities of employment as against the loss to the salmon fishery?

MR. STEVENS: We feel this way, that there should not be any developments which would completely destroy a given salmon resource; nor need there be. Take power, for example. It has been shown by reliable people, people working with the international sockeye commission, with the Department of Fisheries, engineers, that you can develop a tremendous amount of hydro power in British Columbia without even



touching the salmon resources we have. In the interim period, if we use the ones that will not affect the salmon first, we should be able to find methods whereby you can build big dams and at the same time preserve your salmon. That would be our long range aim in that respect.

As far as water pollution concerned, for example, pollution from the pulp and paper industry and your about-to-be-developed atomic industries and the danger of waste materials from them, we feel definite steps should be taken to prevent any such waste material being allowed to pollute any spawning grounds. We would stress the need for conservation first, and we see no reason why there cannot be a proper reforestation programme along with the logging that goes on, making sure that the spawning beds and streams and so on are not harmed. There is no reason why we cannot take protective measures at the same time we build up the other industries.

MR. GUSHUE: That is a question of the preservation of resources?

MR. STEVENS: Yes.

THE CHAIRMAN: Thank you very much. We will mark your brief Exhibit 97. We are grateful to you for supplementing it, and I can assure you that the question of fishing and the people who work in the



industry will not be overlooked by this  
commission.

MR. STEVENS: Thank you very  
much.

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THE CHAIRMAN: Now we have Mr. Wilson of the Lower Mainland Regional Planning Board. We will mark your submission Exhibit 98. Will you proceed?

MR. WILSON: Mr. Chairman and gentlemen, perhaps I had better start by saying a little about our board, since it may not be completely obvious who we are and what we do.

Very briefly, the Lower Mainland Regional Planning Board is an advisory body which is supported by the 27 municipalities of this region together with the provincial government. I think it is true to say it is a supra-municipal body rather than a municipal one, and is not directly tied in to government at any level.

Our job, among others, is to prepare plans in regard to the development of the region as a whole. That means at this moment I have no particular case to argue, and you cannot expect any fire or thunder from us.

The brief we put in dealt very briefly with the subjects of airports, major parks, over-all municipal expenditures and so on, but with your permission I would propose only to deal very briefly now with the latter two, that is municipal expenditures and suburban sprawl.

All I have to say on the question



of municipal expenditures is that the figure we gave you suggested that municipal expenditures in the metropolitan area might jump from the \$40 million which was spent in 1951 to something of the order of \$93 million per year in 1980; but even that figure could very well be low, primarily because there is a tremendous backlog of work which has not been done in the metropolitan area, and in fact may not be done until we set our administrative and governmental house in order. I am talking about the series of highways which are essentially inter-municipal matters and on which we have not as yet got to first base. So that estimate we made could very well be low, but the order of things might be of some assistance to you.

I would like to say a little, however, about the question of suburban sprawl, or the uncontrolled sprawl of urban and suburban areas into our agricultural land. The first thing we say, of course, is that this is a stupid use of a non-renewable resource. That is the main thing you can say about it, but there are one or two specific effects I might mention.

In the first place it does have a very direct effect on municipal economics, and more particularly on those services which municipalities normally provide to their citizens. It means that if they spread people





all over the landscape, as they are doing at the moment, well, they cannot provide those services or if they do, they provide them at a cost very much more to the individual than it need be.

In the second place -- and this may be of more interest to you -- it does of course destroy a considerable amount of productive land. Some figures have been given both by ourselves and in the recent report on milk made by a royal commission, which show that at the moment a considerable amount of first class land which is close to the metropolitan area is disappearing, and that in the last year or two that rate of disappearance has been stepped up considerably.

I must submit, however, that there are some factors which will tend to reduce this rate of disappearance. The first is that about three-quarters of our first class land is at least a little remote from the metropolitan area in which the growth rate is highest; and although the near quarter is in some danger at the moment, I would say that it could probably be some time before the remainder really would come under fire.

One other factor which I think will mitigate the disappearance of this land is the fact that the policy of Central Mortgage and Housing Corporation is tightening



up in respect to the requirements for loans, and particularly the requirement in this area that sewers be provided in new developments, which I think will tend to limit this sort of housing in the future.

On other remark I might make comes from the royal commission report on milk, again, in which Mr. Justice Klein noted that we could be producing probably twice what we are producing per acre. In other words the level of efficiency of our agriculture, and more particularly in regard to milk, is only half what it could be. So that although some of our land may very well disappear, we could make up a great deal of the leeway by more efficient production methods.

There is another fact, of course, which should not be overlooked, and that is the effect of this sprawl on land values. Especially in a region such as ours, which is a pleasant area with a good climate and having amiable people, we find that all over the area it is possible for one piece of land to be the subject of competition among a number of possible users, so there is in fact a very large amount of speculation in land all over the region.

That, of course, has an effect on land values and on taxes, since land is the base of taxation at the municipal level. It



means the farmer is paying more taxes for his land and for his operation than he needs to pay.

One matter which may interest you is this; that we have definitely established from studies which we have not yet published that the farmer in most agricultural municipalities is already overpaying. All people in the municipality are taxed on the same basis, on the basis of land and the value of improvements, and our studies show quite definitely that on that basis the farmer is contributing more than he gets from the municipality and that in fact he is subsidizing the sprawling or small holding areas.

That is the picture, and I am sorry to have to say that at the moment nothing of any consequence is being done to combat the sprawl that is going on. My own opinion is that it is not likely to be done at least for quite a number of years, as long as the problem is left with the municipalities themselves. The people responsible for establishing municipal policy and carrying out administrative duties are too close to those whose interest lies in cutting up and using land.

I hate to be pessimistic in that way, but I honestly believe nothing will be





done, or will be done in time, as long as that problem is left with the municipalities.

THE CHAIRMAN: Thank you, Mr. Wilson. You have a problem here that probably you could apply to some extent in every large metropolitan area. I wondered during the course of your own remarks, and when this subject came up two days ago, what would be the position of the farmers if the use of their land was restricted to farm purposes. Perhaps if they could get a good price for it they would rather sell it. How do you handle that situation?

MR. WILSON: It is not an easy situation to answer, but I would suggest this; that if the land is restricted to its proper use, namely for farming, then some of the speculative element in land cost might disappear; and along with that it might be reasonable to introduce some consideration to the farmer in respect to his land assessment, which again would bring down his taxes.

THE CHAIRMAN: Of course that is not much compensation as against very high values per acre.

MR. WILSON: Except, of course, that all the farmers cannot sell all their land at that same high value; the market would not stand it.

THE CHAIRMAN: They are doing it



around Toronto. After all, in 20 years Vancouver is going to be bigger than Toronto is now, according to the estimates; and perhaps in a shorter time than that.

We are most grateful to you, Mr. Wilson, and I must apologize for the time you have waited in order to present this brief. Our timetables seemed to get mixed up, and I am sorry you were the victim. Thank you very much.

We will adjourn now until January 16, 1956, at 10 a.m. in Quebec.

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(Page 3500 follows)





# ROYAL COMMISSION ON CANADA'S ECONOMIC PROSPECTS

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COMMISSION ROYALE D'ENQUÊTE  
SUR LES  
PERSPECTIVES ÉCONOMIQUES DU CANADA

HEARINGS HELD AT

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SÉANCES PUBLIQUES À

QUEBEC, QUE.

January 16, 1956  
16 janvier 1956

VOL. 18



Québec, Province de Québec

La séance de la Commission à Québec, a eu lieu à l'Hôtel de ville de Québec, lundi 16 janvier, 1956, à dix heures a. m.

PRESENTS:

M. W. L. Gordon, président,

M. Omer Lussier,

M. Andrew Stewart

M. Raymond Gushue

M. A. E. Grauer

COMPARUTIONS :

L'Honorable Wilfrid Hamel, maire de Québec,

M. J. P. Nadeau, directeur de l'Association des Techniciens de produits laitiers,

Honorable C. Vaillancourt, la Fédération des Caisses Populaires Desjardins, Lévis, P. Q.

LE PRESIDENT :

La séance est ouverte, monsieur le Président, tous les membres de la Commission sont très heureux d'être à Québec. Comme vous pouviez bien l'imaginer, notre collègue et bon ami, monsieur Lussier, nous a beaucoup parlé de votre belle ville, qui joue un rôle très important dans notre pays.

Quant à moi, un de mes ancêtres s'est établi à Québec, vers l'an 1800. Il y a cent ans, deux de mes grands-parents sont nés à Québec, et ils passèrent leur enfance dans cette magnifique ville. Mes parents ont toujours aimé Québec, et pendant plusieurs années mes frères et soeurs et moi-même avons passé nos vacances dans cette province. Je



n'ai pas besoin d'insister pour ajouter que les canadiens, et tout ce qui se passe dans cette province m'intéresse beaucoup; je n'ai qu'un seul regret, c'est de ne pouvoir venir plus souvent à Québec, et malheureusement de ne pas parler le français. J'espère que vous comprenez ma situation.

THE CHAIRMAN :

Mr. Mayor, we are very grateful indeed to you, sir, for lending us the City Hall for this meeting. It is extremely kind of you, and we appreciate it very much.

The first item on the agenda is the presentation by the City of Quebec, and if you are prepared to present it, we will receive it very gratefully.

M. LE MAIRE HAMEL :

Monsieur le Président, messieurs, vous me permettez de remercier notre président pour la note si sympathique qu'il apporte dès le début de ses délibérations en s'exprimant dans un excellent français qu'il prétend même ne pas parler.

C'est tout de même très délicat de sa part, je le félicite et je l'en remercie.

Monsieur le Président,

Messieurs les Commissaires,

Vous nous faites l'honneur de venir siéger à Québec. Nous voudrions que votre séjour, plutôt bref parmi nous, soit agréable et à la fois profitable à l'accomplissement de votre mandat. Dès maintenant, nous





vous donnons l'assurance de notre plus entière collaboration dans la tâche délicate et complexe que l'on vous a confiée.

A l'ouverture de la conférence fédérale-provinciale, le Très Honorable Premier Ministre du Canada a fait allusion au travail dont votre Commission a été chargée. Monsieur Saint-Laurent a résumé les sujets que vous devez étudier. L'énumération qu'il en a faite, bien que nécessairement brève, laisse entrevoir l'ampleur de vos travaux. L'on sent déjà que les renseignements et conclusions que livrera votre étude serviront de base et, en même temps, de guide. Vous avez là une lourde responsabilité, mais comme on a été bien inspiré dans le choix de tous les membres de votre Commission, nous sommes confiants que vos conclusions constitueront une source de renseignements très utiles.

C'est dans cet esprit que nous avons voulu comparaître devant votre Commission et soumettre le mémoire préparé à votre intention. Est-il nécessaire de souligner qu'il peut renfermer des considérations sur des points au sujet desquels vous n'hésiteriez pas à déclarer, monsieur le Président, qu'ils sont hors des cadres de l'enquête que vous poursuivez.

Nous nous rendons compte que le but visé par votre Commission n'est pas une étude entreprise sur des moyens pour parer à une situation urgente ou à une crise, mais plutôt, comme il a été déclaré, pour établir des plans pour une période normale ou une période de prospérité. Nous croyons que, dans cet ordre d'idées, il n'est pas superflu de faire dans le contexte qui va suivre une revue rétrospective de la ville de Québec, tant au point de vue historique que sur sa situation géographique et son aspect économique.



Enfin, dans le texte même, nous élaborerons les points particuliers qui touchent de plus près à l'enquête que vous conduisez. Si nos données sont trop optimistes, nous comptons sur votre obligeance, de même que sur votre expérience pour rétablir ces données selon les normes acceptables par votre Commission. Cet optimisme, d'ailleurs, tient à une cause profonde, car si notre ville a un passé glorieux qui ne fut tout de même pas sans difficultés, elle a grandi grâce à l'attachement indéfectible de ses citoyens à ses institutions et à la constance qu'implique sa devise : DON DE DIEU FERAY VALOIR.

### APERCU HISTORIQUE

La ville de Québec se dresse sur un territoire que Jacques Cartier, découvreur du Canada, connut en 1535 et que l'on désigne comme le Gibraltar d'Amérique. Elle est la capitale du Canada français, fondée en 1608 par Samuel de Champlain. Ses vieilles maisons et ses monuments sont comme un écho du courage et de la vaillance manifestés par les missionnaires, les colons, les soldats, les hommes d'Eglise et d'Etat.

C'est ici même, dans le sillon creusé par la charrue, que le premier cultivateur de la Nouvelle France Louis Hébert sème le blé français qui, plus tard, devint le blé canadien.

En septembre 1759, par la victoire de Wolfe, Québec passe sous la domination britannique et est, pendant plusieurs années, le siège du gouvernement.

Pour reconnaître la justice et la générosité témoignées à leur endroit les citoyens canadiens d'alors prennent les armes pour com-







battre côte -à-côte avec leurs ennemis d'hier, afin de repousser l'invasion américaine de 1775. Plusieurs d'entre eux versent leur sang et donnent leur vie dans cette mémorable occasion. Plus tard, ce geste est encore répété lors de l'immortelle victoire remportée par Salaberry à Châteauguay en 1812.

Québec est élevé au rang de cité par une charte royale sanctionnée en 1832. Pour la première fois, en 1833, le maire et les membres du conseil municipal sont élus par le peuple.

Québec, siège du Gouvernement de la Province est aussi un centre religieux et universitaire. De nombreuses institutions dispensent l'enseignement à un haut degré. L'Université Laval, fondée par le Séminaire de Québec en 1853, rayonne au pays comme à l'étranger. Elle reçoit de plus en plus nombreux des élèves des pays d'Europe et d'Amérique. Ses locaux sont devenus insuffisants. Pour répondre aux besoins on fonde la Cité Universitaire qui, lorsqu'elle sera terminée, fera l'orgueil de notre ville, de la province et du Canada tout entier.

#### SITUATION GEOGRAPHIQUE ET ASPECT ECONOMIQUE

La ville de Québec est bâtie sur le roc, à plus de 350 pieds au-dessus du fleuve Saint-Laurent. Sise au confluent de la rivière Saint-Charles, elle est à 400 milles du golfe Saint-Laurent, sa dernière voie d'accès à l'océan Atlantique, et à 180 milles à l'est de Montréal.

La ville est divisée en huit quartiers dénommés : Champlain, Saint-Jean Baptiste, Montcalm, Saint-Roch, Saint-Sauveur-est, Saint-Sauveur-ouest, Limoilou-est et Limoilou-ouest.



Suivant les données du statisticien de la ville, la population était de 290,901 âmes en 1954. Dans un rayon de vingt-cinq milles elle peut être évaluée à 325,000.

Au dépôt du rôle de l'exercice 1955-56, la valeur immobilière était de \$300,614,662, dont \$189,913,687 étaient imposables et \$110,700,975 non imposables.

Des entreprises de tout genre fournissent de l'emploi à des ouvriers compétents. Elles sont variées et il suffira d'en nommer quelques-unes pour souligner l'importance et la qualité de la main-d'oeuvre embauchée dans les industries établies, telles que : manufactures de chaussures, vêtements, corsets, tabac, cigares et cigarettes; les produits alimentaires, les fourrures, le bois de pulpe, les tanneries, imprimeries, ateliers de reliure, produits métallurgiques, brasseries, etc.

Des compagnies de la Couronne opèrent des usines de munitions légères. Un centre industriel existe à Saint-Malo et dans d'autres parties de la ville où des zones d'industrie ont été déterminées.

Le pont de Québec relie les deux rives et est utilisé par les deux chemins de fer transcontinentaux et six lignes subsidiaires, tandis qu'un autre pont rattache l'Ile d'Orléans à la rive nord.

Nos établissements portuaires ont une importance nationale, vu leur accès facile aux navires océaniques de fort tonnage pendant huit mois de l'année. Voici quelques considérations que l'on retrouve dans le documentaire publié par la Chambre de Commerce locale à ce sujet :

"Les limites s'étendent sur une distance de 15 milles, de





la rivière du Cap-Rouge jusqu'à l'Ile d'Orléans. A certains endroits la profondeur du chenal atteint 200 pieds à marée basse. Les installations comprennent 4 principaux quais et jetées, d'une longueur totale de 20,425 pieds, pouvant accommoder jusqu'à 31 navires en même temps; 9 hangars de transit, d'une aire globale de 691,000 pieds carrés; 23 milles de voies ferrées régulières de terminus. Les voies ferrées sur les quais du port, avec les cours des chemins de fer dans les environs, peuvent accommoder jusqu'à 1,425 wagons de marchandise en tout temps. "

"La capacité d'entreposage de charbon dans le port est de 215,000 tonnes. La capacité d'entreposage des réservoirs à l'huile est de 46,500,000 gallons. "

"Un élévateur à grain, d'une capacité de 4 millions de boisseaux, et 2000 pieds de galeries d'expédition permettant de charger 90,000 boisseaux à l'heure; un entrepôt frigorifique moderne, d'une capacité de 500,000 pieds cubes, un entrepôt à poisson, d'une capacité de 76,500 pieds cubes, peuvent loger un million de livres; une grue flottante d'une capacité de 75 tonnes et, finalement, trois grues locomobiles, d'une capacité allant jusqu'à 38 tonnes, constituent, en grande partie, les facilités du port de Québec. "

Le rapport annuel du Conseil des Ports Nationaux pour l'année 1954 indique des améliorations dont le coût représente une dépense d'immobilisation de \$1,082,796. Bref nos établissements portuaires, par leur situation géographique privilégiée et leurs commodités modernes, sont en mesure de répondre aux besoins actuels. Nous ne doutons pas que les autorités fédérales prendront les mesures nécessaires pour faire face au développement futur occasionné par l'industrialisation de l'est





de la province et du Nouveau Québec. Grâce à tous ses avantages naturels, il est reconnu que la position de la ville de Québec sur la route de l'ouest Canadien est plus avantageuse aux ports d'Angleterre et de l'Europe Continentale que celle des autres ports de ce continent.

Parmi les villes favorisées par le tourisme Québec occupe un rang unique. Pendant l'année entière ses visiteurs ont à leur disposition de nombreuses hôtelleries, des maisons de pension, des cafés et restaurants de tout premier ordre.

Ses organisations de transport par air, par terre et par mer, de même que celles de messageries et de téléphone, ses journaux locaux et ses postes de radio privés et d'état, ainsi que son poste de télévision font que la ville de Québec n'est pas isolée. Elle demeure un centre non seulement comme capitale, mais également comme point de rencontre dans les échanges commerciaux facilités d'ailleurs par les grandes institutions bancaires établies en notre ville.

L'énergie électrique est en abondance et l'on y trouve aussi une usine à gaz.

L'approvisionnement d'eau est assuré à la ville par gravité, au moyen de conduites d'amenée sur une distance de 7 milles. La consommation quotidienne est de l'ordre de 35,000,000 gallons. La source d'eau est de surface, chlorée, mais non filtrée. L'eau est analysée tous les jours.

Le service des incendies comprend des unités d'équipement moderne distribuées dans les 13 postes de la ville. Le personnel requis pour la protection des citoyens et des biens est de 314.



Pour le maintien de l'ordre et l'observance des règlements le personnel du service de la police est de 318, réparti dans 6 postes.

La ville a son propre service d'hygiène et opère un hôpital où sont traitées exclusivement les maladies contagieuses.

De nombreux hôpitaux, disséminés dans la ville reçoivent des malades, non seulement de Québec, mais aussi des environs et cela dans un rayon assez étendu. Des médecins de renom y sont attachés.

L'aménagement de son territoire a été confié à des urbanistes experts qui ont préparé un plan d'ensemble prévoyant, dans ses particularités, la conservation du vieux Québec au passé historique et un développement rationnel, selon les principes de l'urbanisme. Cette prudence marque un bon point de départ. Elle assure une coordination essentielle, fondement d'une participation adéquate dans les activités économiques de la province et de tout le pays.

En résumé, notre ville entend jouer son rôle. C'est à ce point que nous sommes obligés, monsieur le Président et Messieurs les Commissaires, d'intercaler dans ce mémoire la question primordiale des revenus qu'une ville comme Québec doit avoir, non seulement pour s'administrer, mais aussi pour couvrir les dépenses d'immobilisations inévitables. Voilà pourquoi nous nous permettons d'attirer votre attention sur le sujet car, vous l'avez deviné, les perspectives économiques de notre ville demeurent inévitablement sous l'influence de ce facteur important. Cette mention, me direz-vous, n'est pas nécessaire, mais comme nous en arrivons à des considérations qui intéressent plus précisé-







ment votre Commission, elle peut ne pas être utile eu égard au chapitre qui va suivre.

En somme, et nous insistons particulièrement sur ce point, nous ne voulons pas qu'il y ait d'équivoque. Si, d'une part notre optimisme nous fait envisager des perspectives brillantes, d'autre part notre ville ne doit pas, si nous voulons demeurer réalistes, être limitée dans ses moyens d'action et de participation. On reconnaît que les villes sont l'avant-garde des gouvernements supérieurs. Nous sommes donc en droit de nous imaginer que l'on ne saurait tirer des conclusions sur des perspectives, voire brillantes, sans considérer cet aspect important de la question.

## LES PERSPECTIVES D'AVENIR

### Généralités

#### Territoire actuel

Le territoire actuel n'est pas complètement occupé. Il le sera sûrement d'ici vingt-cinq ans. Il est possible qu'il soit agrandi par des annexions que des événements pourraient provoquer, alors que les parties en cause y verraient un avantage réciproque pour les administrés. D'autre part Québec a déjà l'aspect d'un centre métropolitain. Le besoin d'homogénéifier quelques services, afin d'en réduire le coût, a suscité certaines rencontres entre les parties intéressées en vue d'étudier l'opportunité d'une administration métropolitaine dont le but serait de réduire les charges des contribuables, tout en conservant à chaque municipalité son autonomie.



La superficie de la ville de Québec est de 9 milles carrés. La plus grande partie est comprise dans les quartiers Limoilou-est et Limoilou-ouest dont l'étendue est de 4.18 milles carrés, soit près de la moitié de la surface actuelle de toute la ville. Ces deux quartiers connaissent un développement continu dans la construction d'habitations nouvelles.

### Population

La population de la ville de Québec augmente normalement. Les plus fortes augmentations ont été constatées pendant la période de la dernière guerre qui a provoqué la création d'industries pour les besoins de l'Etat. La courbe ascendante d'alors a continué avec le temps de paix, non par à-coups cette fois, mais plutôt avec une tendance vers la stabilisation que lui procurent les éléments suivants ;

a) l'accroissement naturel de la population;

b) la migration régulière de personnes qui, attirées par l'industrie ou par d'autres motifs, se dirigent vers les centres urbains en nombre dépassant celui des citoyens qui vont s'établir dans la banlieue. Ici comme ailleurs, car ce n'est pas une particularité qui nous est propre, on constate que ce flux et ce reflux de la population a causé :

- 1o. le développement de la banlieue;
- 2o. le déplacement des centres domiciliaires;
- 3o. la création d'artères commerciales qui, jusque là, étaient réservées aux zones domiciliaires;
- 4o. un mouvement de population plus accentué si on le





compare à une période antérieure à 25 ans.

Nos prévisions sont que, d'ici 25 ans, soit en 1980, la population, s'il n'y a pas de changement aux limites actuelles, devrait atteindre, suivant les données du statisticien de la ville, 347,000 en chiffres ronds, selon la progression quinquennale suivante :

1955	225,319
1960	248,768
1965	272,161
1970	297,754
1975	321,238
1980	346,641

#### Approvisionnement d'eau potable

Avec la construction récente d'une conduite amenée de 42 pouces la ville peut faire face aux éventualités de bris de ses autres conduites principales de 30 et 40 pouces et assurer la continuité dans le service d'eau aux contribuables tout aussi bien qu'une sécurité additionnelle dans le cas d'incendies. Selon des données estimatives, l'eau est en quantité suffisante pour desservir une population de 300,000 âmes, sous la réserve toutefois qu'il y aura des travaux à effectuer. En outre, si la population devait atteindre en 1980 le chiffre de 347,000 tel que prévu, la ville a des moyens à sa disposition pour parer à cette autre éventualité, mais ils comportent des déboursés d'immobilisations assez considérables.

Présumant que ce mémoire pourrait être l'objet de références, non seulement pour les besoins de votre Commission, mais plus tard pour les autorités au nom desquelles vous agissez, nous nous





permettons d'indiquer les caractères de l'eau de notre aqueduc municipal, suivant le dernier relevé fait en 1954.

Source : eau de surface, chlorée, mais non filtrée, provenant des lacs et de la rivière Saint-Charles, prélevée à environ sept milles au nord de Québec.

Température : minimum : 38 °F., maximum 70°F, moyenne 50°F.

Turbidité(unités) minimum : 1, maximum : 4, moyenne : 2.

Couleur (unités) minimum : 15, maximum : 80, moyenne: 32.

pH : minimum : 5.8 maximum : 6.8 moyenne : 6.4

Oxygène dissous : 6 - 12 p. p. m.

Résidu fixe : 35 p. p. m.

Résidu d'évaporation : 44 p. p. m.

Alcalinité : 6 - 15 p. p. m.  $\text{CaCO}_3$

Dureté : 12 - 24 p. p. m.  $\text{CaCO}_3$

Fer : 0.15 - 0.55 p. p. m. Fe

Cuivre : 0.10 - 0.15 p. p. m. Cu

Chlorure : 6 p. p. m. NaCl

Sulfates : 5.4 p. p. m.  $\text{SO}_4$

Fluor : 0.08 - 0.15 p. p. m. F.

Chlore résiduaire : 0.15 p. p. m. moyenne

Silice : 5 - 12 p. p. m.  $\text{SiO}_2$

Qualité bactériologique : Très bonne

### Longueur de rues

La longueur des rues de la cité est, à l'heure actuelle, de 140.77 milles dont :



132.10 milles de rues pavées

8.67 milles de rues non pavées.

D'autres rues seront ouvertes pour répondre aux besoins puisque, ainsi qu'on l'a dit, les espaces disponibles seront occupés d'ici 25 ans.

Le tableau ci-dessous indique ce que nous prévoyons pour les années futures :

<u>Années</u>	<u>Rues pavées</u>	<u>Rues non pavées</u>	<u>Total</u>
1960	140 milles	10 milles	150 milles
1965	145	10	155
1970	150	10	160
1975	160	5	165
1980	165	0	165

A cause du climat la Cité doit déboursier des sommes assez considérables pour la préparation , la confection et l'entretien de ses rues. Certaines villes du Canada profitent d'un climat plus tempéré. Aussi n'ont-elles pas l'obligation d'affecter des dépenses d'immobilisation pour des matériaux d'une résistance comparable à celle que nous devons prévoir pour l'infrastructure et le revêtement des couches d'asphalte de nos rues . Est-il nécessaire d'ajouter qu'à lui seul le déneigement de nos rues implique une dépense annuelle d'environ \$1,250,000.

#### Développements paroissiaux

Les paroisses dans la ville de Québec sont au





nombre de 29 actuellement. D'autre part la construction de nouvelles habitations comporte, comme on le conçoit très bien, une augmentation de paroissiens avec le résultat que les limites des paroisses sont redistribuées. De là la nécessité pour les autorités ecclésiastiques de décréter la fondation de nouvelles paroisses pour assurer aux fidèles les facilités du culte. Les prévisions sont qu'il faudra ériger, dans un avenir plus ou moins rapproché, cinq autres paroisses, sans tenir compte d'un démembrement toujours possible de paroisses anciennes dont le nombre de fidèles peut, avec le temps, dépasser les normes prévues.

L'augmentation de la population entraîne aussi presque inévitablement la création de centres de loisirs paroissiaux pour les jeunes. Cette initiative, qui a eu d'heureux résultats jusqu'ici va, sans doute, se continuer puisqu'elle procure les moyens de formation morale et contribue au développement physique des jeunes. Le rôle des paroisses et de ceux qui en ont la direction ne peut être sous-estimé si on l'associe, comme il doit l'être, à la mission qu'ont les gouvernements supérieurs de former d'excellents citoyens.

### Développement industriel

La ville de Québec est, de par sa situation géographique, un centre de distribution dont l'activité est en progression croissante, d'abord par son propre développement et ensuite par celui, de plus en plus accentué, des zones du Québec métropolitain. Des indices nous incitent à croire que Québec profitera des développements gigantesques actuels dans le Nouveau Québec et de la canalisation du Saint-Laurent en voie de se matérialiser. D'autres régions en plein essor, comme le Lac-St-Jean et Chicoutimi, de communications faciles avec Québec, ajoutent à notre optimisme.



Il reste encore à Québec même d'excellents sites, dans des zones industrielles favorables à l'établissement de nouvelles industries; de même qu'il y a plusieurs zones dans la banlieue qui se prêtent admirablement bien aux industriels qui préfèrent établir leurs industries en dehors des centres ou des agglomérations.

Le Commissariat de l'Industrie de la Cité de Québec, au cours de la dernière décade, n'a rien épargné pour développer et encourager l'industrie dans notre cité. Un grand nombre de nouveaux établissements industriels ont été en opération dans les neuf zones déterminées par le plan directeur de la ville. Deux zones ont été particulièrement développées à même des terrains appartenant à la Cité et tous les espaces sont maintenant occupés. Dans ces deux zones soixante et quatorze industries sont en opération et fournissent du travail à 4,108 employés, comportant en salaires un déboursé annuel de \$8,306,091.00; ce sont des chiffres de 1953.

Cinq autres industries dans les deux zones en question sont au stage de la construction et les opérations doivent débiter au cours de l'année 1956.

Le Commissariat Industriel est un organisme qui dépend exclusivement de la Cité de Québec. Il est à prévoir qu'un organisme de ce genre devra être maintenu, sous une forme ou sous une autre, en songeant qu'il y aura peut-être lieu d'en élargir les cadres sur la base d'une participation des villes et municipalités comprises dans le Québec Métropolitain, afin que par les efforts conjugués, il soit possible d'entreprendre de plus nombreuses et de plus vastes réalisations.





## Ecoles

L'enseignement scolaire dans la catégorie élémentaire, complémentaire et supérieure est confié à des institutions sous la juridiction des Commissions scolaires catholiques et protestantes de la cité de Québec. Ces commissions sont absolument indépendantes de l'administration de la ville, bien que, en vertu de la loi, il appartient à la Cité d'imposer la taxe nécessaire, selon le besoin, pour en remettre ensuite le produit aux Commissions.

Selon les statistiques publiées, il y a 69 écoles en opération pour la section dite catholique. A ce nombre il faut ajouter 5 écoles et couvents actuellement en construction et qui seront mis à la disposition des élèves dès l'an prochain. Quant à la section anglaise, dite protestante, il y a actuellement en opération une école élémentaire et un High School.

Faute de données précises sur le sujet et en se basant sur la population estimée pour l'avenir, il faudra sans aucun doute construire de nouvelles écoles et des couvents dont le coût représentera des dépenses d'immobilisation assez importantes.

## Hôpitaux

Les hôpitaux dans la ville de Québec sont au nombre de 12, comportant au total 2911 lits. Les malades hospitalisés pendant l'année 1954 furent de 53,104.

Il y a 4 hôpitaux en dehors des limites de la cité, plus précisément dans la banlieue, dont la capacité globale en lits est de 4,982. Ces hôpitaux comprennent toutefois un hôpital où sont traitées les





maladies nerveuses et mentales; dans ce dernier cas les lits sont au nombre de 4,000 sur un total de 4,982 lits pour ces quatre hôpitaux qui ont hospitalisé en 1954 9,447 malades.

L'administration des hôpitaux n'est pas sous le contrôle de la Cité. En fait ces hôpitaux sont autonomes, voilà pourquoi nous ne pouvons préciser quels sont les projets d'agrandissement ou de développement prévus. Nous sommes d'avis cependant que d'ici vingt cinq ans la capacité actuelle en lits sera doublée parce que les activités sont alimentées par un fort contingent venant non seulement de la cité et de la banlieue, mais aussi d'endroits très éloignés, ce qui s'explique fort bien par le bon renom de ces hôpitaux, la spécialisation dans les traitements et la réputation très enviable qu'ont tous les médecins qui y sont attachés. Il est donc à prévoir qu'il faudra soit agrandir les hôpitaux actuels, si la chose est possible, ou construire d'autres hôpitaux pour répondre aux besoins.

#### Main-d'oeuvre, embauchage et aide aux sans-travail

Nous avons en fait une seule rubrique parce que les trois sujets sont connexes. Notre main-d'oeuvre est abondante et les ouvriers en emploi sont compétents et disciplinés.

Les travaux d'enseignement manuel dans nos écoles primaires, le Centre d'Apprentissage pour les métiers de la construction, ainsi que notre Ecole Technique voient un nombre de plus en plus considérable de personnes s'inscrire à leurs cours. On peut espérer qu'un plus grand nombre encore saura profiter de ces avantages, afin que



notre main-d'oeuvre soit suffisamment spécialisée pour l'avenir industriel de notre ville.

Néanmoins, l'avènement du machinisme, s'il fut un facteur de progrès, n'a pas été sans provoquer une nouvelle prise de position pour répondre d'abord aux besoins de l'industrialisation et ensuite pour assurer une nouvelle répartition des emplois. Or, le rendement étant jugé d'importance primordiale, il s'en est suivi une certaine contraction, pourrait-on dire, dans la forme de l'embauchage. En fait, l'âge fut dès lors le facteur déterminant, à tel point que le chercheur d'emploi âgé de plus de quarante-cinq ans éprouvait, comme il éprouve encore d'ailleurs, des difficultés à se faire embaucher, du moins dans certaines catégories d'emploi. Cette restriction, voulue ou imposée par les circonstances, en tout cas le fait existe, est un paradoxe en ce siècle où l'on voit d'une part la moyenne de vie prolongée chez l'homme, grâce à l'amélioration de la santé et, d'autre part, un raccourcissement ou du moins un état de permanence dans la moyenne d'âge désirée ou requise en général dans l'ordre de l'embauchage.

La nouvelle répartition des tâches et la restriction d'âge imposée au chercheur d'emploi ont eu pour résultat de mettre en chômage des jeunes travailleurs et des moins jeunes. Déjà en 1940 la Revue Internationale de Travail soulignait comme un problème sérieux le chômage des jeunes et elle proposait des solutions, entre autres :

- a) Ajuster l'offre de main-d'oeuvre à la demande, grâce à des systèmes bien conçus d'enseignement, de formation et d'orientation professionnelles et





de placements.

b) Entreprendre des travaux publics spéciaux.

A Québec, comme dans certaines autres villes de la province, il y a eu, comme moyen d'orientation, la création de classes de travaux manuels. En outre, l'institution des écoles d'arts et métiers, les centres d'apprentissage pour les métiers de la construction, de concert avec les écoles techniques en existence, constituaient le moyen de solution, sinon en totalité du moins en partie, du problème sérieux de chômage des jeunes auquel il est fait allusion. Les chercheurs d'emploi dépassant la limite d'âge formèrent alors une catégorie spéciale de travailleurs et l'élément en chômage dit "chronique". Malheureusement, parmi eux se trouvent des chefs de famille nombreuse dont l'espoir ne peut reposer exclusivement, ils en ont déjà l'expérience, sur une période normale de prospérité pour y voir une solution à leur sort. Il reste que le problème n'est pas réglé. Il y a un quart de siècle et plus, si on pouvait le considérer comme transitoire et à l'échelle du gouvernement municipal, il a changé de palier depuis par la force des choses, d'où la passation d'une loi d'assurance-chômage. Cette loi est un palliatif. Elle n'a pas été adoptée, nous le savons, comme une panacée. Il ne faut pas, d'autre part, en méconnaître les bienfaits. Aussi croyons-nous qu'elle sera dans nos statuts à demeure et qu'on ne peut songer à la voir disparaître, précisément à cause des services qu'elle rend actuellement et du chômage chronique ou inévitable des temps de crise.

La famille est une institution qu'il faut sauvegarder. Pour y arriver on doit conserver au chef l'autorité dont il est investi. Nous avons eu l'occasion de le dire et nous le répétons, le chef



de famille en chômage, bien qu'encore capable de travailler, a l'impression toute naturelle d'être à la charge des siens, d'où le sentiment qu'il n'a plus voix prépondérante au chapitre dans la famille dont il est à la tête. Voilà pourquoi nous sommes d'avis que certains travaux spéciaux, considérés utilitaires, pourraient être entrepris pendant la période creuse de l'année, alors qu'une attention toute particulière serait apportée à cette classe de travailleurs pour la faire participer à l'activité économique. Il ne faut pas oublier que les centres, et la ville de Québec en est un, sont le plus durement frappés lorsqu'il y a régression dans l'activité industrielle.

Nous nous sommes attardés sur ce point particulier de l'aide aux sans-travail parce que les demandes d'emploi les plus pressantes sont faites par les chefs de famille qui ne songent point à se déplacer à cause des liens qui les retiennent ici. Lorsqu'on se dégage de cette particularité pour examiner dans son ensemble le problème de la main d'oeuvre et de l'embauchage, on en trouve la raison première à l'origine. Aussi nous paraît-il nécessaire d'en discuter les angles à la lumière des informations que nous possédons sur les tendances de l'emploi au sein de l'effectif de la population active de Québec. Québec veut dire la ville et les comtés de Portneuf, Montmorency et Québec. On estime que la ville à elle seule contribue 70% à la population du territoire visé.

L'effectif ne comprend pas seulement les travailleurs rémunérés, mais aussi les employeurs, ceux qui travaillent à leur propre compte et ceux qui, tout en n'étant pas salariés, sont quand même engagés dans la production de marchandises ou de services. Le gros de l'effectif est fait de travailleurs qui lui appartiennent de façon permanente.





L'effectif urbain est censé grossir d'année en année.

Il y a le contingent annuel des adolescents et le flot de ceux qui viennent de la campagne. Les travailleurs vivent maintenant plus vieux, ils font plus longtemps partie de l'effectif.

L'industrie manufacturière constitue le plus gros groupe industriel. Le taux de progrès de ce secteur a été un peu plus important que le taux observé pour l'ensemble des industries. Toutefois, au sein des industries manufacturières, toutes n'ont pas progressé au même rythme. Dans l'ensemble des industries manufacturières le nombre de postes d'emploi en 1955 aura marqué un déclin sur celui de 1954. Nos chercheurs d'emplois se recrutent dans les catégories suivantes :

Hommes de moins de 20 ans	10 à 13%	-	Femmes	16 et 17%
Hommes de 20 à 44 ans	66 2/3 %	-	Femmes	75%
Hommes de 45 à 64 ans	20%	-	Femmes	6 2/3%
Hommes de plus de 65 ans	6 1/4%	-	Femmes	1/2 %

Les pourcentages sont un peu plus élevés en été et cela s'explique car c'est le moment où les finissants sortent des écoles, en plus des étudiants en vacances désireux de travailler.

L'analyse des données que nous possédons nous fait constater que Québec est, parmi les centres métropolitains, l'un de ceux où le nombre des postulants d'emploi est toujours relativement élevé.

Il faut se demander maintenant si le nombre des postes de travail augmente aussi vite que le nombre des travailleurs. En





nous basant toujours sur nos données, nous pouvons dire que le nombre des postes de travail a augmenté, du moins en ces dernières années, mais moins vite chaque année que le nombre des travailleurs.

L'ensemble de statistiques sur le sujet suggère que le centre métropolitain de Québec devrait faire l'objet d'une attention particulière de la part de tous ceux qui observent les fluctuations du marché du travail.

En somme l'accroissement de l'effectif des travailleurs provient de deux sources principales: la montée actuelle des adolescents sortis des écoles et l'apport des comtés ruraux dont Québec est le centre d'attraction. Ces facteurs de croissance de l'effectif sont-ils permanents? Dans le cas des jeunes qui débudent sur le marché de la main-d'oeuvre, il est évident que leur nombre ne cessera de croître d'année en année, l'incidence des naissances dans le territoire étant nettement supérieure à celle des décès. De leur côté les comtés ruraux contribuent depuis longtemps à l'augmentation de notre population. Québec étant la première grande agglomération urbaine sur leur chemin, les travailleurs s'y arrêtent pour tenter leur chance de s'y établir.

Il est de plus en plus impérieux que la zone métropolitaine de Québec voie surgir de nouveaux postes de travail à un rythme plus fort. Il faut trouver moyen d'amener ici d'autres entreprises et, de préférence, celles qui produisent des biens que personne n'y produit déjà. Nous croyons que s'il était possible de maintenir ouverts toute l'année à la navigation océanique le port de Québec et la voie fluviale



jusqu'à l'océan, des industriels songeraient à établir à Québec les entreprises dont il est question.

Conclusion : Dans le territoire métropolitain de Québec, l'effectif des travailleurs a tendance à augmenter plus vite que le nombre des postes de travail. Les causes de cet état de choses sont d'ordre permanent. Il faudra donc trouver des moyens d'attirer des industries diversifiées pour maintenir l'équilibre. On devra encourager toute initiative favorisant le développement économique des régions du Lac-St-Jean, des Laurentides à l'est de Québec, du Nouveau-Québec, de l'estuaire du Saint-Laurent et de la Gaspésie, car les gains économiques de ces régions serviront les intérêts à longue échéance du territoire métropolitain de Québec.

#### Véhicules-moteurs, circulation et terrains de stationnement

Le nombre de véhicules-moteurs enregistrés pour la ville de Québec seulement est de l'ordre de 31,000. Les prévisions pour l'avenir sont ainsi qu'il suit :

1960	34,200
1965	37,700
1970	41,700
1975	46,000
1980	50,800

En outre, si nous tenons compte du nombre de véhicules qui viennent de l'extérieur et qui opèrent ensuite un mouvement de sortie, nous ne surprendrons personne en déclarant que notre ville, a, elle aussi, un problème de circulation. Il est d'autant plus complexe que la





topographie de notre territoire offre l'aspect de deux villes superposées. Incidemment la ville doit garder le cachet du Vieux Québec, et dès lors, les rues étroites dans cette partie sont conservées pour rappeler il est vrai le passé, mais ajoutons-le, l'agencement des moyens pour faciliter une circulation déjà encombrée en est excessivement compliqué. Aussi notre ville songe-t-elle à acquérir des terrains de stationnement en des endroits appropriés. C'est une question d'importance primordiale qui retient l'attention de tous les instants.

Des sommes importantes devront être dépensées pour l'acquisition de ces terrains en plus des déboursés qu'il faudra effectuer pour leur aménagement et leur entretien. Evidemment il sera possible de retirer des revenus dérivant du stationnement, mais ils seront insuffisants, du moins les premières années, pour couvrir le service de la dette, l'amortissement et les intérêts, les frais d'entretien, ainsi que la perte de revenus provenant d'immeubles imposables qui disparaîtront.

#### Aménagement de terrains de jeux

Outre les centres récréatifs localisés dans chacune des paroisses de la ville, ou presque, des terrains de jeux sont mis à la disposition des jeunes et sont opérés par un organisme connu sous le nom de l'Oeuvre des Terrains de Jeux de Québec Inc. Cet organisme administre aussi un arena, construit par la ville, pour la jeunesse et les adultes.

Les terrains de jeux sont au nombre de 16 et, en été, l'inscription est de 22,000, alors qu'en hiver elle est de 25,000.

Les dépenses d'opération et d'administration pro-



prement dites sont de l'ordre de \$140,000.

Le Directeur de l'Oeuvre soumet les prévisions suivantes :

<u>Années</u>	<u>Inscriptions</u>	<u>Terrains requis</u>	<u>Dépenses prévues</u>
1960 été	24,000	15	\$175,000
hiver	27,000	18	
1965 été	26,000	17	200,000
hiver	30,000	20	
1970 été	29,000	18	215,000
hiver	33,000	21	
1975 été	30,000	20	235,000
hiver	34,000	22	
1980 été	31,000	20	250,000
hiver	35,000	22	

Ces données ne renferment pas celles de l'Arena des jeunes, dont l'administration est tenue séparément.

Dans tous les terrains de jeux on cherche à instruire les enfants. Il y a le service artisanal en faveur des fillettes, le bricolage et la peinture tant chez les garçons que chez les filles. L'enthousiasme est soutenu et les résultats justifient les dépenses encourues. Une école de balle au camp existe depuis quelques années, ainsi qu'une école de hockey, lesquelles ont fait leurs preuves.

Cette oeuvre en est une de formation physique et morale. Elle joue un rôle important et nécessaire. Aussi la ville de Québec y est allée d'un appui constant en assumant des dépenses d'immobilisation en plus d'un octroi annuel. Si on fait le compte pour une période





couvrant les dix dernières années seulement, la ville a effectué des dépenses d'immobilisation se totalisant à près du million de dollars, sans compter l'octroi annuel qui, de \$20,000 fut porté à \$40,000, puis finalement à \$50,000, depuis quelques années. Il va sans dire que si l'Oeuvre avait plus de ressources, elle accomplirait davantage parce que les besoins sont nombreux.

Protection du public : Service des incendies et service de la sûreté.

Service des Incendies

L'effectif du corps des incendies est actuellement de 316. Dès l'an prochain le nombre en sera augmenté quelque peu par suite d'une décision d'un tribunal d'arbitrage qui comporte une réduction des heures de travail. Tenant compte de ce changement le directeur du service des Incendies soumet les données suivantes sur l'augmentation possible prévue pour les années indiquées ci-dessous :

1960	383 personnes devront y travailler
1965	420
1970	464
1975	511
1980	562

Avec treize postes, situés aux endroits appropriés, les prévisions sont qu'il suffira d'un poste additionnel bien équipé pour répondre aux besoins de l'avenir et, en présumant que les unités d'équipement ne subiront pas de modifications considérables au point qu'il faille agrandir les postes pour les remiser. La durée normale des unités d'équipement est d'environ 20 ans. Sur cette base il faudra pourvoir à leur remplacement, suivant les estimations indiquées qui suivent :





1960	\$ 139,225.00
1965	89,875.00
1970	74,625.00
1975	239,075.00
1980	90,375.00
ce qui représente un total de     \$ <u>633,175.00</u>	

Nous n'avons pas fait d'estimés spécifiques quant au coût d'opération et d'administration pour les années futures. Les éléments sont trop variables et intangibles. Cependant on peut juger de leurs proportions car, pour l'exercice terminé en 1954-55, la contribution budgétaire a été de \$1,103,162.18.

#### Service de la Sûreté

Les données ne couvrent que la force constabulaire proprement dite. Il n'est pas question ici du personnel requis à des tâches associées au rouage judiciaire. Le nombre actuel des policiers et celui prévu sont les suivants :

1955	286
1960	313
1965	343
1970	375
1975	405
1980	437 personnes

Le nombre de véhicules mis à la disposition de nos constables et le nombre qu'il faudra prévoir au minimum sont indiqués ci-après :



1955	48
1960	53
1965	58
1970	63
1975	68
1980	73

Ces prévisions sont encore un minimum. Le problème de circulation est complexe et il est probable que des équipes volantes devront être ajoutées par suite du nombre croissant de véhicules-moteurs.

La dépense pour l'administration et l'opération de ce service a été, en 1954-55, de \$1, 240, 522.58.

#### Travaux d'immobilisations

La ville tient à jour, depuis quelques années, un inventaire des travaux d'immobilisations. Cette précaution lui permet de suivre un programme ordonné. De plus cet inventaire pourra servir dans les cas d'urgence car, dans la plupart de ces cas, les plans ont été préparés ou sont en voie de préparation.

Les travaux prévisibles et l'estimation de leur coût ont été subdivisés selon que l'exécution en sera faite par le service de l'Aqueduc ou celui des Travaux Publics.

#### Service de l'Aqueduc

1955 - 60

Nouvelles sources d'approvisionnement dans les lacs et rivières	300,000
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Extensions, renouvellements et services d'aqueduc et de drainage	2,500,000 ce qui donne	
		2,800,00 au total

1960 - 65

Usine de pompage d'égouts et système vis-à-vis l'Hôpital Général	1,500,000	
Usine de filtration à Château-d'Eau	4,000,000	
Réservoir de distribution de 10,000 gallons	1,000,000	
Extensions, renouvellements et services d'aqueduc et de drainage	2,500,000	

ce qui donne un total pour ce dernier item de

9,000,000

1965-70

Extensions, renouvellements et services d'aqueduc et de drainage	2,500,000	
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1970 - 75

Nouvelles sources d'approvisionnement au fleuve Saint-Laurent	2,000,000	
Extensions, renouvellements et services d'aqueduc et de drainage	<u>2,000,000</u>	4,000,000

1975 - 80

Usine de pompage d'égouts à St-Pascal	2,000,000	
Extensions, renouvellements et services d'aqueduc et de drainage	2,000,000	4,000,000

ce qui donne en tout 22,300,000 pour les améliorations prévues.



Service des Travaux Publics

Division de la voie publique

Années	<u>Ouvertures et élargissements de rues</u>	<u>Pavages et remplacements de pavages</u>	<u>Total</u>
1955-60	1, 500, 000	1, 500, 000	3, 000, 000
1960-65	2, 000, 000	2, 000, 000	4, 000, 000
1965-70	2, 000, 000	2, 000, 000	4, 000, 000
1970-75	1, 000, 000	2, 000, 000	3, 000, 000
1975-80	1, 000, 000	2, 000, 000	3, 000, 000
	<hr/>	<hr/>	<hr/>
	\$ 7, 500, 000	9, 500, 000	17, 000, 000
	<hr/>	<hr/>	<hr/>

Il nous faut déclarer que la ville a dû différer des travaux urgents dont le coût est en sus des sommes indiquées ci-dessus. Ces travaux comprennent des élargissements et prolongements de rues pour faciliter la circulation, des terrains de stationnement et l'assainissement de la rivière Lairet. Le coût de ces travaux est estimé à \$10, 000, 000

Dans le même inventaire nous avons des travaux indiqués sous une rubrique spéciale dite "Travaux spéciaux". Ces travaux ne peuvent être entrepris qu'avec l'aide des gouvernements supérieurs parce qu'ils impliquent, à notre avis, un intérêt ou une responsabilité morale, sinon légale, de ces gouvernements. Le coût de ces travaux, dont l'énumération suit, est estimé à \$ 24, 000, 000

Ils comprennent :

le parachèvement de l'égout collecteur;

l'éclusage de la rivière Saint-Charles;



la canalisation de la rivière Saint-Charles,  
du pont Samson au pont Drouin;

les principales traverses à niveau;

la réfection de la Promenade de la Citadelle;

l'assainissement de la rivière Lairet, dont  
l'estimé est inclus dans les \$10,000,000 prévus  
au paragraphe précédent et non dans les  
\$24,000,000 de travaux spéciaux.

Tous ces travaux urgents prévisibles et les travaux  
dits spéciaux représentent un déboursé global d'environ \$73,300,000 que  
nous résumons :

Travaux prévisibles

	<u>Aqueduc</u>	<u>Voirie</u>	
1955-60	2,800,000	3,000,000	5,800,000
1960-65	9,000,000	4,000,000	13,000,000
1965-70	2,500,000	4,000,000	6,500,000
1970-75	4,000,000	3,000,000	7,000,000
1975-80	4,000,000	3,000,000	7,000,000
	22,300,000	17,000,000	39,300,000

ce qui donne au total \$39,300,000

Travaux prévisibles \$39,300,000

Travaux spéciaux \$24,000,000

Travaux urgents \$10,000,000

Total \$73,300,000





Si la ville a dû retarder l'exécution de travaux urgents estimés à \$10,000,000, elle ne songe pas pour cela à abandonner ces projets car, tôt ou tard, ils devront être réalisés. D'autre part tout délai implique, cela va de soi, un retard dans l'exécution des autres travaux prévisibles, à moins que ceux-ci, en dernier ressort deviennent plus urgents que ceux-là.

### Budget municipal

En se basant sur les estimés budgétaires 1955-56, ainsi que sur le facteur population, un état a été préparé à votre intention lequel renferme une projection de ces mêmes estimés pour les périodes quinquennales prévues par votre Commission. Cette projection ne tient évidemment compte que des sources actuelles de revenu puisque ce sont les seules dont la cité peut légalement se servir.

Une symple analyse établit hors de tout doute que le budget actuel ne correspond pas aux besoins d'une ville de 225,000 de population. Alors que notre budget est de \$12,700,000, y compris les besoins scolaires, des villes de population à peu près semblable ont à leur disposition, pour s'administrer, un budget variant de \$15,000,000 à \$20,000,000. Comme on le voit, la marge est substantielle. Le présent ne nous laisse d'autre alternative que de comprimer de plus en plus la dépense, tout en reportant à plus tard l'exécution de travaux urgents. On ne peut agir autrement dans les conditions actuelles sans compromettre davantage la structure financière de notre ville et l'économie même de ses administrés.



## CONCLUSION

Vous m'aviez demandé d'exposer mes vues personnelles sur un sujet proposé. Dans le Mémoire qui les renferme j'ai tenté d'apporter des considérations objectives. Vous avez demandé en outre quel progrès est envisagé dans notre ville durant les vingt-cinq prochaines années et quels problèmes posera peut-être la satisfaction des besoins qui naîtront de ce progrès et ce au triple point de vue financement, organisation et personnel. Cette question précise appelle des commentaires que je me permets de vous soumettre.

Depuis près de vingt ans la ville de Québec a déboursé une somme de \$36,000,000 pour des travaux d'immobilisations. Ces travaux n'ont pu être effectués à même les ressources budgétaires. Il a fallu recourir aux emprunts. La conséquence, un budget alourdi et un échéancier de sa dette chargé pour les dix prochaines années. Elle ne peut continuer au même rythme. Les causes? La ville a grandi, les travaux étaient nécessaires, mais les moyens pour les faire exécuter étaient restreints. Ils le sont encore. C'est là que se pose le problème et, sans vouloir faire de l'histoire, on peut se demander, et ce n'est pas une particularité qui nous est propre, si les villes pourront continuer à jouer le rôle qui leur est dévolu. Cette instabilité financière peut avoir comme conséquence d'affaiblir l'économie du pays.

Deux guerres ont fait surgir des problèmes qui ont retenu l'attention au point qu'on a forcément oublié que les villes sont demeurées avec des obligations qui n'ont fait que s'accroître. Or la capacité financière pour les rencontrer, suffisante avant ces guerres, est devenue inadéquate. Adam Smith a dit "Il doit être rappelé que





lorsque le plus sage gouvernement a épuisé tous les sujets appropriés de taxation, il doit, dans le cas de nécessité urgente, avoir recours aux taxes mauvaises." Ce n'est pas souhaitable, mais c'est tout de même à méditer.

Le citoyen demande des services; il faut trouver les moyens d'en acquitter le coût. Nous savons que la chose n'est pas facile car nous avons fait l'expérience d'augmenter les taux de taxes et celle de tenter d'imposer de nouvelles taxes. Et puis si le taux augmente, cela a pour effet d'accentuer le déplacement de la population vers la banlieue. On évite les villes ayant des taux de taxes assez élevés en s'établissant au-delà des limites de ces villes. Des agglomérations se développent, mais elles appartiennent au centre urbain, même si elles sont une unité politique distincte. Elles sont de la ville, même si légalement elles n'en font pas partie. Il arrive ensuite que ces municipalités limitrophes dépendent, en retour, du centre pour des services publics, sur une base contractuelle qui parfois n'est pas profitable à la ville qui les fournit.

Il faut le répéter, notre civilisation est à prédominance urbaine au point de vue économique et culturel et cette tendance va sûrement en augmentant. Le fait devrait valoir aux villes, particulièrement à Québec, qui est une capitale, une étude sérieuse des problèmes qui les confrontent. C'est à ce point que je veux placer devant votre Commission une situation qui me semble paradoxale. Il s'agit, en l'occurrence, des faits suivants que je désire souligner à votre attention :

a) Le gouvernement Fédéral ne paie pas la taxe de



vente municipale sur ses achats, bien que la ville acquitte la taxe de vente fédérale sur ses propres achats.

b) Le gouvernement Fédéral, tout en recevant les mêmes services que les autres contribuables, reçoit un traitement de faveur en n'étant pas taxé.

J'ai l'impression que le principe invoqué jusqu'ici que la Couronne ne peut être taxée ne nous semble pas devoir être envisagé sous le même aspect à cause de l'évolution des services rendus par les municipalités. Cela est particulièrement vrai dans le cas d'une ville comme Québec où la proportion des édifices gouvernementaux est élevée.

Permettez-moi, messieurs, en terminant, de vous remercier de votre bienveillante attention et de vous assurer que nous sommes à votre entière disposition pour tous renseignements complémentaires dont vous pourriez avoir besoin.

And I wish to thank you for your kind attention to my brief.

THE CHAIRMAN :

This is exhibit No. 104.

M. OMER LUSSIER :

Monsieur le maire, monsieur le président m'a demandé de vous remercier au nom de la Commission pour le magnifique mémoire que vous nous avez présenté. J'en suis d'autant plus orgueilleux que je suis de la ville de Québec, et que déjà j'ai attiré l'attention du président





sur la qualité de votre mémoire, son élégance, la clarté et la modération de vos expressions, et je ne puis m'empêcher de vous dire que nous avons fait le tour du Canada, nous avons eu des mémoires de plusieurs villes, onze villes à date, c'est ici la onzième, et il me fait plaisir de vous dire, même si je dois passer pour un Québécois trop partisan, que c'est le meilleur, le plus modéré et le plus courtois que nous ayons entendu, et je crois qu'à ce titre au moins vous allez avoir de la part de mes collègues une très grande sympathie dans les recommandations que vous faites.

Si vous permettez, monsieur le Maire, j'aurais voulu vous poser quelques questions; toutefois, ça ne m'appartient pas beaucoup de les poser, et je préférerais que mes collègues les posent, parce qu'étant de Québec, j'ai toujours craint de paraître un peu préjugé dans leurs associations.

Alors, je suis encore dans une situation un peu embarrassante puisqu'on me demande de vous poser les questions.

SON HONNEUR LE MAIRE HAMEL :

Je vous remercie pour les mots aimables que vous avez eus pour la ville; je suis obligé de retourner ces mots à nos officiers qui ont fait le gros du travail.

M. OMER LUSSIER :

Alors, je félicite aussi vos officiers.

M. D. V. LEPAN :

Les commissaires sont intéressés dans les développe-





ments économiques qui se déroulent actuellement dans la province de Québec, et qui sont imprévisibles.

Je parle par exemple des développements économiques du Nouveau Québec, à Baie Comeau, à Sept Îles, etc. etc. Vous avez mentionné ces développements à la page 20, si je me souviens exactement, de votre mémoire, et vous avez attiré l'attention des commissaires à leur importance pour la ville de Québec afin de maintenir un équilibre dans le marché de main-d'oeuvre, un équilibre social entre l'effectif des travailleurs et le nombre de postes de travail.

Je suis sûr que les commissaires seront très intéressés si vous vouliez élaborer davantage un peu les effets que vous prévoyez pour la cité de Québec, à cause de ces développements économiques.

Par exemple : Quelles sont les industries secondaires qu'on a déjà établies ici à cause de ces développements; et ensuite, quelles sont les industries secondaires que vous prévoyez à la ville de Québec, à la suite de ces développements économiques dans la province.

SON HONNEUR LEMAIRE HAMEL :

Voici, il s'agit toujours de prévisions; nous sommes sous l'impression que les développements dans le Bas-Québec, pour employer l'expression populaire et qui est juste, vont favoriser la ville de Québec et les environs.

Nous parlons de région parce que c'est le marché le plus près possible de main-d'oeuvre en particulier et aussi à d'autres points de vue.



En résumé, nous avons l'espoir et la conviction même que ces grands développements vont faire appel à la main-d'oeuvre de Québec et les alentours dans une proportion considérable, surtout chez les jeunes, parce que Québec étant l'endroit des familles nombreuses, il est assez difficile pour les chefs de familles de s'éloigner de la maison, mais je crois que les jeunes y verront un attrait assez particulier, et que le marché du travail en sera bonifié ici à Québec.

Vous nous demandez quelles seraient les industries secondaires que nous entrevoyons. Je sais qu'actuellement, - je ne parle pas pour l'avenir - l'industrie métallurgique, peut-être pas dans le sens qu'on l'emploie, de la fonte des métaux de minerai, mais il y a beaucoup de travail, on collabore à ces développements, ce qui amène à Québec du travail pour plusieurs personnes, et j'ai l'impression qu'au point de vue des industries - je voudrais avoir le mot plus juste - au point de vue métallurgique, ça peut passer, en autant que je ne m'attends pas d'avoir de hauts fourneaux cette semaine, je pense que nous pouvons parler de l'industrie métallurgique ici à Québec, qui devrait apporter une amélioration aux conditions générales; et quant aux autres choses, une fois que la roue a commencé à tourner, tous les rouages s'en suivent.

M. D. V. LePAN :

Merci beaucoup, monsieur le maire. Encore une question, s'il-vous-plaît : Est-ce que vous pourriez exprimer votre avis sur les problèmes de la transportation entre la ville de Québec et les centres de la rive nord du fleuve Saint-Laurent ?

SON HONNEUR LE MAIRE HAMEL :

Je crois que la question est bien posée, c'est un







domaine que je n'avais pas touché. J'ai l'impression que Québec étant un port de mer important, avantageux, qui peut recevoir toutes sortes de navires, de n'importe quel tonnage, toutes les activités aux alentours de Québec profiteront à la ville d'où partiront les produits qui devront être dirigés vers ces centres par camions dans certains cas, - les routes carrossables se développent de jour en jour, des endroits qui étaient inaccessibles il y a dix ans, le sont maintenant partiellement, le seront complètement demain, je crois que c'est une unité économique du Bas-Québec, dans laquelle unité la ville de Québec est incluse et j'espère qu'elle jouera un rôle de premier plan.

Nous sommes heureux du développement de nos voisins parce que nous sommes heureux de les voir réussir et nous pensons avoir notre part.

M. D. W. LePAN :

Vous avez fait allusion, monsieur le maire, à la canalisation du Saint-Laurent, à la page 13, je pense. Je suis sûr qu'il sera très utile, si vous vouliez exprimer votre avis sur le sens pour la ville de Québec de ce projet.

SON HONNEUR LE MAIRE HAMEL :

Evidemment, il s'agit d'un projet d'envergure, et il s'agit d'un problème que je n'ai pas la prétention de pouvoir juger et encore moins solutionner, mais en référant au vieux principe que les affaires sont bonnes le long d'une route fréquentée, j'espère que la ville de Québec de ce fait retirera de grands avantages, et si en définitive la canalisation du Saint-Laurent a pour effet de diriger de notre côté -



changer un peu les voies maritimes au point de vue du transport du freight en particulier pour les Grands Lacs et pour le centre du Canada; si ce trafic, et c'est probablement ce qui arrivera, au lieu de passer par certains états américains, se dirigeait par le Golfe et par le fleuve Saint-Laurent, ces gens passeront devant Québec, y arrêteront certainement et pour le motif d'espoir qui n'est pas très défini, mais qui est assez compréhensible, c'est que ceux qui habitent près d'une route très fréquentée font généralement de bonnes affaires.

M. D. W. LePAN :

En ce qui concerne, monsieur le maire, les travaux d'immobilisation, vous avez souligné, je pense, deux faits : Premièrement que le coût de ces travaux publics est très élevé; et deuxièmement que les revenus imprévisibles sont insuffisants, et vous avez suggéré que le Gouvernement Fédéral doit acquitter les taxes municipales.

Peut-être les commissaires sont-ils de votre avis à cet égard, je ne suis pas sûr. Cependant, y a-t-il d'autres remèdes à proposer?

Plusieurs maires ont proposé au sein de la commission que les municipalités doivent pouvoir emprunter à des taux plus bas. Je suis sûr que vous êtes d'accord - je le suppose - cependant, est-ce que vous avez des idées pour faciliter une telle politique financière pour les municipalités?

SON HONNEUR LE MAIRE HAMEL :

Oui, au sujet des finances, j'appartiens à la Fédération des maires canadiens qui a déposé un mémoire, pas devant votre





commission, à Ottawa directement, demandant que les municipalités puissent obtenir de l'argent à des taux très réduits.

Ce serait certainement aider beaucoup les municipalités qui en retireraient des avantages incontestables. Mais c'est une solution. Ce n'est probablement pas la seule, et est-ce la meilleure?

J'ai l'impression qu'une attitude plus directe, - je le dis, j'ai l'habitude de dire ce que je pense - est-ce que ce grand principe qui est inspiré par le respect qu'on a de la royauté, de la Couronne et ceux qui représentent la Couronne, principe qui s'appliquait sans heurt à l'origine, alors que dans les villes il n'y avait pas d'immeubles en valant la peine, est ce qu'aujourd'hui on ne pourrait pas trouver un moyen pour que le gouvernement, pour que tous les immeubles payent leur juste part des taxes, ce qui, dans des villes comme Québec, qui est dans une situation particulière, il faut l'admettre, apporterait un remède assez considérable. Ce serait une grosse chose pour la ville.

Quant à la possibilité pour l'état de nous fournir des emprunts, état qui peut emprunter à meilleur marché que les villes, de nous fournir des fonds au prix coûtant, c'est certainement une bonne chose, et j'ai agréé au projet présenté par les maires, mais je me demande s'il n'y aurait pas moyen de trouver pour que les édifices imposables à Québec - j'ai vu faire le saut à monsieur le président, cent dix millions de dollars non imposables - il y a là toute une proportion qui ne peut pas être imposée : les institutions religieuses qui nous apportent des services qui valent beaucoup plus que l'exemption de taxes, il ne s'agit pas de ça, mais les édifices gouvernementaux, ils sont là pour





servir toute une région, quelques fois toute une province, et pourquoi seulement une ville en porterait-elle tout le fardeau?

Enfin, je crois que lorsque le gouvernement a l'obligation morale de participer à certains travaux, je sais qu'il rencontrera ses obligations, mais ce sont des cas particuliers, c'est un cas qui se produit à l'année pour les municipalités de ne pas avoir de la part du pouvoir central des revenus auxquels elles ont droit, parce qu'à mon avis un édifice qui sert à toute la province ou à la moitié du pays ne devrait pas être à la charge d'une municipalité comme c'est le cas.

M. D. W. LePAN :

Merci infiniment.

M. OMER LUSSIER :

Monsieur le maire, à votre point de vue, si la municipalité pouvait imposer les édifices gouvernementaux, tant provinciaux que fédéraux, est-ce que ceci vous permettrait de boucler votre budget? Est-ce que ce serait un remède suffisant pour pouvoir rencontrer vos dépenses?

SON HONNEUR LE MAIRE HAMEL :

Non, cela ne nous le permettrait pas immédiatement, mais ce serait déjà une aide considérable, et cela nous rapprocherait du but de façon - je n'ai pas devant moi le montant que pourrait rapporter la taxation de ces édifices, mais de toute façon, il y a un tas de choses régulières qui, à mon avis, - de particulières qui devraient être faites, et qui nous amèneraient très près du but. Il restera ensuite la providence dans laquelle je crois, les développements qui vont certainement nous



arriver, et il restera que la période de guerre - je crois que les extrêmes difficultés - est-ce qu'on me permet une remarque?

M. OMER LUSSIER :

Oui, c'est ce qu'on veut.

SON HONNEUR LE MAIRE HAMEL :

Les extrêmes difficultés financières qui accablent tous les pays ne sont pas la conséquence des dernières guerres, mais sont la conséquence d'une période de dix années de dépression alors qu'on n'a rien fait, que les gens ne se sont pas mariés, les affaires sont arrêtées, on n'a pas construit de maisons d'habitations, et aujourd'hui, il faut parer aux difficultés causées par la guerre pour un quart ou trois quarts, pendant que l'univers n'a pas vécu ou notre hémisphère, les exigences se sont accumulées, il faut y faire face aujourd'hui. Alors, ça va se remplir un peu, et j'espère qu'on n'aura plus de ces dépressions-là.

Je pense qu'il y a maintenant - il ne faut pas que j'exprime d'opinion détaillée pour des raisons que vous connaissez. Le monde a été, de 1929, après la première guerre, le monde a été arrêté pendant dix ans, c'est mon opinion, ça ne veut pas dire que c'est juste. Là, il faut reprendre tout le temps perdu. Il n'y a pas eu de constructions, de développement, d'habitations, les gens vivaient - on a eu à Québec des quatre ou cinq familles dans de très petits logements. C'a dû se produire ailleurs.

M. OMER LUSSIER :

Maintenant, vous avez mentionné la canalisation ou





l'assainissement de la rivière Lairet et de la rivière St Charles.

Dans votre opinion, monsieur le maire, est-ce que le fait de faire ces améliorations-là d'abord permettrait d'agrandir, je dirais, le territoire de la cité pour construire des immeubles; et en second lieu, croyez-vous que l'effet aussi de rendre plus élégants les abords de la rivière St-Charles contribuerait à augmenter le tourisme qui vient ici à Québec?

SON HONNEUR LEMAIRE HAMEL :

Oui, je crois qu'il y a nécessité et avantage; d'abord, on sait que sur une partie de ce cours d'eau, la rivière Lairet est navigable en principe. Si elle est navigable, je prétendrais que le contrôle des eaux navigables a des obligations.

Ensuite de ça, est ce que ça nous ferait récupérer un terrain en valant la peine? Pas énormément, mais ça ferait disparaître un cours d'eau à ciel ouvert et des eaux pas très propres, en pleine ville d'un quart de million, et il est clair que pour le tourisme s'il y a quelque-chose à Québec que nous tenons moins à montrer aux étrangers, c'est la rivière Lairet. Nous serions moins gênés de faire visiter la ville.

M. OMER LUSSIER :

Au sujet de la possibilité d'avoir un port d'hiver ici à Québec, - on en parle depuis bien longtemps, est-ce que vous avez eu des opinions d'experts à ce sujet-là, ou sur la possibilité de maintenir le canal l'hiver jusqu'au golfe, par exemple, et quel serait le coût que ça pourrait occasionner, que les gouvernements seraient obligés d'encourir pour cet entretien-là?



SON HONNEUR LE MAIRE HAMEL :

Dans une autre organisation, j'ai eu l'occasion de prendre connaissance d'une opinion d'expert, mais comme elle date de quelques années, et que les temps changent un peu, je ne pourrais m'appuyer dessus trop fermement, mais je crois que la Chambre de Commerce de Québec fait un travail élaboré, et si la Commission voulait bien nous pourrions faire appel à leur coopération qu'ils donneront avec beaucoup d'enthousiasme, et nous ferions venir les compilations qu'ils ont. L'opinion que j'ai date de dix ans.

M. OMER LUSSIER :

Nous serions très heureux d'avoir cette opinion-là.

SON HONNEUR LE MAIRE HAMEL :

Alors, je note et vous me permettrez de vous la faire parvenir.

M. OMER LUSSIER :

Certainement.

Une autre question, au sujet des taudis : Trouvez-vous que les secours actuels offerts par les gouvernements pour débarrasser les villes des taudis sont suffisants, et est-ce que vous avez une suggestion à faire à ce sujet-là?

SON HONNEUR LEMAIRE HAMEL :

J'ai l'impression - je donne une opinion personnelle - que la situation de ce côté-là s'est améliorée dans une grande proportion dans la ville de Québec.

J'ai un certain âge, j'ai vu beaucoup de choses à





Québec, le quartier que j'habite en particulier est un quartier d'ouvriers où il y avait des choses il y a dix ans et quinze ans qui étaient très peu supportables. Aujourd'hui, c'est très amélioré, et je pense que la construction actuelle, qui se fait, a pour effet d'améliorer le sort de gens qui vivaient dans des conditions pas très humaines.

Il reste et il restera de ces choses, mais je crois que les circonstances ont tendance à amener une amélioration qu'il ne faut pas considérer comme normale, le problème n'est pas résolu, mais est en bonne voie de se résoudre, en autant qu'on peut espérer que tout être humain vive humainement. Il y a toujours des petites faiblesses, mais en demeurant les pieds bien à terre, j'ai l'espoir que ça s'améliorera, et que d'ici quelques années nous ne verrons plus ce que nous avons eu à déplorer dans le passé.

Quant aux gouvernements, au point de vue subsides, je crois que les gouvernements vont très loin, sont très généreux. C'est mon opinion.

THE CHAIRMAN :

Thank you again, Mr. Hamel, very much, not only for your understanding cooperation, but also for the very great help that you have been to this Commission in this submission and in the helpful way in which you have answered our questions.

HIS HONOUR MAYOR HAMEL :

Thank you very much.

THE CHAIRMAN :

We will recess for ten minutes.





- - - After recess.

THE CHAIRMAN :

The next submission is that of the Canadian Dairy Industry to be presented by Mr. J. Peter Nadeau. We will mark it exhibit 105. Mr. Nadeau, would you like to present it to us?

Mr. J. PETER NADEAU :

Yes sir.

Monsieur le Président, messieurs les Commissaires, je me propose de lire cette présentation en anglais. La traduction complète n'est pas encore publiée. Si vous voulez me suivre, ceux qui ont des copies, nous procéderons en anglais. Maintenant, si quelqu'un veut poser une question en français, il me fera plaisir de le faire.

M. OMER LUSSIER :

Je vous prie de lire en français, monsieur Nadeau.

M. J. PIERRE NADEAU :

Je n'ai pas la copie officielle française.

(Page 3550 follows ).



MR. NADEAU: Mr. Chairman and gentlemen, as I said in French, I will start this brief in English, as the complete French translation has not been made as yet, and if any questions come up and anybody wants to ask questions in French, I will be pleased to answer them.

Just what will be the future of an industry as important as the dairy industry during the next 5 - 10 or 25 years is very hard to determine at the moment.

Changes in our Canadian economy, the increase in our population, the shift in population from rural to urban, changes in technology, in food habits and all medical, technical and economic forces will have an ever greater bearing on just how much milk will be produced and what will be done with it.

For many years now and ever since its beginning, the province of Quebec has been essentially a rural province and its large families have earned their livelihood from the land and the practice of mixed farming of which the dairy industry soon became a leading part.

The history of the development of agriculture in the province of Quebec would be too long to relate in full but one has only to look at this history to note the important part played by the milk and dairy industry in its development. At first and for many years, cheese and butter produced under very difficult and primitive conditions were the principal and only methods of utilization of milk. Cheese and butter were the dairy industry, with cheese the principal product until such time as the domestic market requirements for butter made





this product more profitable. The change-over from cheese to butter was gradual but began at the turn of the century.

The developments in the utilization of milk in the province of Quebec were greatly influenced by the two world wars. However, due to the large number of small factories, the large families which provided family labor, the predominance of rural over urban population scattered on many small farms throughout the province, transportation difficulties due to poor roads coupled with an absence of refrigeration, the first world war did not do much to change the methods of utilization of milk.

During this period, utilization of the milk in butter and cheese was encouraged, modernized and developed to a greater degree. At the end of the first world war, the province of Quebec was a leader in the production of both butter and cheese with the emphasis on butter and many dual purpose factories being organized to meet the demands of the market and fluctuations in prices of both products.

During the entire period between the two world wars, the above trend was continued in milk utilization in Quebec even though during this period fluid markets were developed along with industrialization and the growth of cities, consumer centers, farmer cooperatives were formed, but the production of butter and cheese in small factories continued as the basis of utilization of over 70 per cent to 75 per cent of all the milk produced in this province.

Naturally, during this entire period and ever



since the beginning, the dairy industry in the province of Quebec was influenced by developments in the dairy industry throughout the country. Prices and markets were always subject to conditions in other provinces and very often to conditions on the world markets and this especially for cheese where exports were made to the largest buyers, the United Kingdom, in competition with our sister nations: Australia and New Zealand. The export price of cheese was determined by world conditions and in turn influenced the domestic price and the production of butter.

In brief, with the exception of the volume of milk utilized on the growing fluid markets, the expanding production of milk in Quebec was used to produce butter for Canadian consumption and cheese for export on the world market, principally to the U.K.

The real change in the utilization of milk in the province of Quebec came with the second world war and began in 1939. To be correct one must say that trends towards a more diversified utilization had been made apparent early in 1939 but the real significant change was made and was due to conditions brought about by the war.

This era, from 1939 to date, may be indicated as the new era for the dairy industry of Quebec and for that matter for the Canadian dairy industry as a whole.

It is on the developments of the war years and since 1947, the post war years, that we must base our views for the future of this industry not only in Quebec but in Canada as a whole.

Real prophets are scarce and as for miracles,





we have just celebrated the 1955th anniversary of the only man who has performed them of his own power and free will. Therefore it is difficult for me to even guess what will happen during the next 5-10 or 25 years. As a matter of fact, I do not know what will happen tomorrow.

There are, however, certain facts which are of utmost importance and which in my mind will have an important bearing on future developments, future needs and the future economic importance of this dairy industry which is still the basis of our mixed farming and the basis of our agriculture at least in central and eastern Canada.

I do not propose to develop these facts to any great length, but I would like to mention them as important, leaving to more competent men the task of placing them in order of importance. I will, however, be prepared to discuss their implications in the future picture as we try to look at it and to assist in the interpretation of their effects insofar as can be done.

CHANGES IN QUEBEC DAIRY INDUSTRY:

- a) During the twenty year period - 1931 - 1951, the number of farms in Quebec dropped from 135,957 to 134,366.
- b) In 1951, on the total farms 81 percent reported dairy cows for milk production.
- c) Of the total with cows for milk production 109,443 - the average number of cows was reported as being 8.2 cows per farm. The average production per cow is a little over 5,000 lbs.
- d) With the above farms and cows, the milk





produced represented a gross value at the farm of about \$158 million in 1952 or equivalent to 33 per cent or one-third of the farm gross value of all agriculture in Quebec.

e) In 1952, in Quebec, we had 509 creameries, 80 cheese factories, 68 combined butter and cheese factories, and 9 concentrated factories - a total of 677 factories in all. This number has since reduced due to further consolidations but represented a decrease of 489 factories from the number in 1939. Consolidation of small factories is a trend which is continuing at a very rapid rate.

f) In 1939-40 Quebec produced 4 billion pounds of milk whereas in 1953-54 this production exceeded 5.5 billion pounds.

In 1940, the production in the province of Quebec represented 25 percent of Canada's total but in 1953 this percentage had increased to 34 per cent.

g) In 1939-40 Quebec produced 28 per cent of the total of 264 million pounds of creamery butter produced in Canada or over 80 million pounds but in 1953 this percentage had increased to 37 per cent of a total production of 303 million pounds or more than 112 million pounds of butter.

h) The average production per factory during the period 1940 to 1951 increased from 106,000 to 146,000 pounds per year. This average production in 1955 would be about 200,000 pounds



due to consolidation of factories in recent years.

- 1) In 1939-40 Quebec produced 27.7 million pounds of cheddar cheese or 24 per cent of the Canadian total of 143 million pounds. In 1953, this production was only 10.7 million pounds or 15 per cent of the total Canadian production of 75 million pounds. In 1955, Canadian cheddar cheese production in Quebec amounted to approximately 14 million pounds or about 17 per cent of the total Canadian production. Ontario with about 75 per cent of the total Canadian production is the cheese producing province of Canada.

- j) In the production of concentrated milk products, Quebec is a newcomer as this industry was only started in 1939 when two evaporated milk plants were opened. In 1940, total production of all milk powder in Canada was approximately 35 million pounds of which Quebec had 3.8 million pounds. In 1953, total Canadian production was 108 million pounds and Quebec had about 40 million pounds. The same trend applies to Casein, except in the case of this product Quebec now produces about 90 per cent of the total Canadian production.

Of all concentrated milk products produced in Canada - in 1940 - 230 million pounds total, Quebec produced 12 per cent. In 1953, with a total production of 440 million pounds Quebec produced 34 percent.

The number of factories producing these





various products in Quebec increased from 13 in 1939 to 87 in 1953. Needless to say that during this period not only did the number of factories increase but there was also a considerable improvement in the size and quality of many of the factories in favor of volume, quality and technical control.

The principal concentrated milk products produced in Quebec are Evaporated Milk, Whole Milk Powder, Powdered Skimmed Milk, Casein, and Sweetened Condensed Whole and Skim Milk. the future in this field under present conditions of export and marketing seems to be with evaporated milk and skim milk powder which are consumed mostly on the domestic market.

k) Ice cream which is a small item in the total utilization picture has nevertheless shown a remarkable increase during the past twenty years and there is every indication that this product will provide an ever increasing outlet for Canada's milk production.

Canadian production of ice cream in 1940 was 10 million gallons of which Quebec produced 18 per cent. In 1953, this production had increased to 29 million gallons and Quebec produced 23 per cent of this total. Production in 1955 was 32 million gallons - an all-time record production. Ice cream production as a general rule utilizes about 3 per cent of the total milk production.



- 1) Fluid milk and cream sales are an ever increasing item in milk utilization and this type of utilization is becoming more and more important as the population increases, as the value of milk becomes more and more recognized and as the purchasing power and standard of living of our Canadian people increases. The possibilities for increase in this market are very great.

In 1940, 4.4 billion pounds of milk were consumed in fluid form, 33 per cent in Quebec. In 1953 Canadian consumption was about 6 billion pounds of which 36 per cent was in Quebec.

This utilization now approaches 40 per cent of all milk produced and this percentage applies just about equally to Quebec as to all of Canada.

#### SUMMARY OF THE SITUATION

A summary of the situation of the dairy industry both in Canada and in the province of Quebec, may be stated as follows:

a) Milk production is increasing as is the number of dairy cows. Production per cow is increased and increasing and methods of farming, technical knowledge and so on, have improved milk production to a point where less farms and less man labor are required to give greater production.

b) Per capita production of milk shows a decline over the past twenty years but this must be related to consumption trends of the past years and





future prospects of such consumption. At the moment, the decrease in domestic consumption exceeds the decrease in per capita production of milk.

c) Milk utilization has shown a definite trend towards more fluid sales, more concentrated milks, more cheese and more ice cream. The overall percentage of milk utilized in the manufacture of butter has decreased, but due to increased production of milk, the volume of butter has increased.

d) Production of milk has remained concentrated mostly in the central provinces of Quebec and Ontario. However, production in Quebec has increased from 25 per cent to 35 per cent of the total Canadian production during the last 20 years. During this period also it is to be noted that butter production increased rapidly in Quebec which province now produces nearly 40 per cent of all Canadian butter. Ontario leads in cheese and concentrated milks but in these latter products, the province of Quebec is fast catching up.

In the eastern provinces of Nova Scotia, New Brunswick and P.E.I., the relative position was unchanged during this same period, but in prairie provinces, there is an indication that during the last twenty years dairying was less important and gave way to other types of farming. Recent trends and reports would indicate a return to dairying and the production of butter which is no doubt due to difficulties in the marketing of wheat and the need for cash income. If this trend were to continue, the entire dairy surplus problem would be worsened and the effect on this important industry in the central





provinces would be serious.

e) Consumption trends of dairy products during the past twenty years are quite encouraging and for certain products these trends if continued would indicate good future domestic markets.

Canadian per capita consumption of evaporated milk, ice cream, and skim milk powder has shown a rapid and important increase since 1939. Cheese consumption has been less spectacular but it has shown a constant increase and has just about doubled over the last twenty years. Fluid milk consumption has remained about constant but in these latter years there seems to be an increase of interest in this product and I would expect an upward trend in the consumption of this product.

As for creamery butter, the one product which represents the utilization of over 50 per cent of the total milk produced in Quebec and 46 per cent of all milk produced in Canada, the trend in consumption is definitely downward and it is this trend which is the cause of all important problems in the dairy industry today. The per capita consumption of butter in Canada since 1948 was decreased from 26.7 pounds to 20.7 pounds, a decrease of over 6 pounds or 22 percent. This decrease is entirely due to the production and sale of margarine which began in 1948 and which reached a per capita consumption of some 8 pounds in 1955.

The practical result of this trend this year in view of our production and consumption, means that in Canada on May 1st and at the beginning of our next flush production season we will have over 50 million



pounds of butter in excess of domestic requirements. Other reports have been issued on this matter but as my only object is divulging the facts as they are, I firmly believe the above figure to be correct and conservative in the true sense of the word. This estimate of excess requirements does not allow for the effect of increased consumption of "spreads" in the Province of Quebec. No statistics are available on these spreads but there is every indication that consumption is on the increase and that such a trend will seriously affect butter consumption in this province. If this happens I think that it is safe to say that our surplus requirements will exceed the given figure.

CONCLUSIONS:

In concluding these brief remarks on the past and present position of the dairy industry in Canada and in the province of Quebec, I wish only to state that:

- a) this industry is the basis of our agriculture, our mixed farming in central Canada.
- b) this industry represents over one-third of the total farm income in the province of Quebec.
- c) in Quebec the dairy industry is made up of over 100,000 farmers on small farms and their principal means of milk utilization is still butter.
- d) because of the widespread sale of margarine in Canada and of spreads in Quebec, the entire dairy industry is threatened at its base.
- e) the change in milk utilization towards





concentrated milk products can only bring limited relief because of the small domestic market for these products and the limited possibilities of exports because of Canadian and foreign policies.

- f) The Canadian Government has a definite responsibility to protect this basic industry against competition from cheap substitutes manufactured with cheap oils brought in to this country without duty or other taxes. The Canadian Government must realize this problem and face up to its responsibilities in this respect. Irresponsible statements made by certain members of the Government do not settle the question nor do they influence our thinking or our views in this respect. A definite protective excise tax on these products is essential and vital. Every effort to reduce the price differential between butter and substitutes must be explored and no effort should be made which would result in lower returns to producers. This problem must be solved by increasing prices or costs of oils in order to bring these in relation to the price of butterfat and to protect the standard of living of our Canadian producers. If this is not done and not done soon, the Canadian dairy industry, such as we know it, is a thing of the past unless the Canadian Government adopts it as a poor child and treats it accordingly.



- g) a suitable and intelligent policy must be outlined and adopted towards the export of concentrated whole milk products, otherwise foreign competitors will have all the markets in a very few years. Copy of one of the recommendations submitted is presented for consideration.

I might add that that presentation was made last spring to the Canadian Government by the Canadian Concentrated Milk Manufacturers' Association and the conditions to which we refer in that small brief are the same or even worse this year than they were at that time.

- h) increased efforts and attention should be placed on programs and policies designed to improve the economies and technology of farm dairy production. Policies should also be designed to encourage such improvements in all factories and plants in this country. These improvements could be encouraged along with support policies but would result in permanent improvements rather than political expediency and would be more permanent and of more value to all concerned.

The future of the dairy industry both in Quebec and in Canada seems to be dependent upon developments in technical and technological fields of production and manufacturing, better and more diversified milk utilization and better and greater domestic per capita consumption. Foreign markets may be of value but under present day conditions they are so unstable that little can be done and hoped for in this field. At best today





they are surplus production outlets.

The future during the next decade or so rests with the domestic market but on this market the following points have to be considered before assessing its full value:

- a) the rapidity with which oleomargarine consumption in Quebec (approximately 1/3 of Canada's population) will reach the level of other Provinces, now - and the recent figure is 10.8 pounds per capita. (Potential further replacement of butter in Quebec if that happened would be approximately 50 million pounds.
- b) The period of time colour restrictions on margarine can be maintained. In Manitoba last year a switch of four votes in the Legislature would have permitted this practice. Similar efforts are now in progress by the edible oil interests in other Provinces. (In the U.S. the removal of colour restrictions increased per capita margarine consumption by 40 per cent from 1950 to 1954 and total production 45.6 per cent during the same period. If a similar trend happened in Canada, we could foresee a further replacement of 70 million pounds of butter.
- c) The period of time prohibition of other substitutes can be maintained, relating to imitation ice cream, fluid milk and cream, evaporated milk and cheese.





- d) The rapidity with which the use of butterfat as an ingredient of margarine is permitted in Canada. Content could range from 2 per cent upward. In several countries of the world this is being practised today, England, European countries, U. S. and so on. This would obviously expedite the replacement of butter as such.
- e) The development of cheaper substitutes for milk solids-not-fat (soybean flour, soybean milk and so on).
- f) The future trend respecting price differentials between fluid milk and manufacturing milk (presently as high as \$2.25 per 100 pounds) and the results of this on consumer prices of the respective products.
- g) The rate of replacement of fresh fluid milk by instantly soluble milk powders and fresh tasting evaporated milk.
- h) The policy of the Government with respect to tariffs, quotas, and so on, on the importation of dairy products.
- i) The policy of foreign governments with respect to importations of Canadian dairy products.
- j) Government policy relating to price supports, subsidies and so on, as they affect production and consumption. Effect of butter floor price on other agriculture productions, such as wheat, beef, hogs.
- k) The impact on consumption of milk fat, of increasingly widespread medical and nutritional



condemnation of present high fat intake.

- l) Marketing legislation as it may relate to artificial pricing - and this is with particular reference to fluid milk.
- m) Improved efficiencies in production of milk.
- n) Improvements in processing and adoption of economies and improved efficiencies in the marketing and distribution of milk and milk products.

In conclusion, I may say that the dairy industry is a vital agricultural industry both in Quebec and in Canada. Many millions of people are interested in its production but all of Canada is vitally interested in the consumption of its products.

Agriculture is a basic industry and the dairy industry is its life blood in central and eastern Canada. It seems strange that such an important industry should be so loosely directed and that some national body made up of all important sectors has not had a voice in the shaping of its destiny.

Thank you, gentlemen.

THE CHAIRMAN: Thank you, Mr. Nadeau.

Dr. Stewart, have you any questions you would like to ask?

MR. STEWART: Mr. Nadeau, I gather from the statement at the bottom of page 5 that looking ahead for the next 20 years or so, that apart from the butter situation that you would feel the prospects were not too discouraging?

MR. NADEAU: That is right.

MR. STEWART: The core of the problem, as





you see it, is butter?

MR. NADEAU: Yes, but of course in considering that phrase it is related to the assumptions which I have incorporated on page 9.

MR. STEWART: Yes. I gather also that your feeling is that this is not a purely temporary problem, that there are certain conditions which show it will be a continual problem?

MR. NADEAU: They won't be continual in the present state, it will be continually worse unless something is done. It will be worsened as time goes on unless we can find some magic formula for changing our milk utilization. That is where the problem arises. It is two-fold. It is butter, lack of consumption of it and, in my mind, the impossibility of changing over immediately away from butter. The production is still accumulating all the time, getting worse.

MR. STEWART: You don't feel, looking ahead, that the increase in the domestic market through increase in population will gradually eliminate what is at present a problem?

MR. NADEAU: I don't think so, sir. And if you would permit me for saying so, you have probably seen it, a very important document or interesting document, at least, came out in the States on that very same point. It is a summary from the U.S. Dairy Department and the Department of Agriculture and they assume here, -- the theory being that eventually consumption or population increase will catch up with production, we hear that quite often, we don't need to worry about it.



But this is what they say, I want to just get this point:

"Since a substantial portion of milk solids-not-fat now produced, is not being used for food, it will be some time before the population increase will induce an expansion in output of milk solids-not-fat. Even if consumption per person of this component of milk expands as much in the next two decades as in the last two, the 1975 consumption of milk and its products could be met with about 140 billion pounds of milk."

Which would be about what they are producing today and that would be 20 years from now.

MR. STEWART: Well, what I am getting at is this, that if the market situation requires certain action that that is not action of a temporary nature, it will be permanently built into the structure?

MR. NADEAU: That is right. It has to be.

MR. STEWART: As I follow it then, your recommendations are first of all an excise on the importation of competitive materials?

MR. NADEAU: That would be the only solution in my mind, which would narrow that gap between the two products in order to stimulate the sales, production, of the home product and correct a situation, while at the same time, due to our foresight, knowing what has happened, that we could continue our policy from the chemical and consolidation standpoint to shift our utilization of milk to other products for which we have markets and for which substitutes are a little more





difficult to obtain, but butter and margarine are only one, sir. Of course, if you take and refer to it in here, the magic of other products, now there is nothing new in that. I think I have been to Newfoundland and at Fort Pepperill all the fluid milk consumed there is made up with skim milk powder and vegetable fat and that is a very delicious product.

In the state of Illinois a full milk which is evaporated milk containing nothing but vegetable fat is outselling all leading brands of evaporated milk. We have a product called -- I forget the name of it -- Mellorine, in United States which is legal in eleven States, is ice cream made up with vegetable fat and the sale of which is growing in leaps and bounds. At the moment there is nothing in Canadian regulations to prevent such products being made and with the average price of vegetable fat coming into this country duty free, and here the average cost would be somewhere around ten cents a pound at the moment as compared to butter fat at 60 or 65 cents a pound. So you have that profit incentive in there and then you have the selling possibility of good products replacing a very essential industry in this country.

MR. STEWART: Generally speaking you want to limit the importation of competitive materials, either vegetable oils, or butter elsewhere, so as far as that device can take us we will stabilize the dairy production?

MR. NADEAU: That is right.

MR. STEWART: And this submission here which you submitted along with your brief, I gathered glancing over it, that the proposition here is that in order to





relieve the domestic situation and to obtain the volume of exports, it will be necessary for us to subsidize exports.

MR. NADEAU: Yes. You see the export of these three products to which reference is made in the brief contain milk and whole milk products which we insist on the term still because we are exporting milk with our solids, the fact of which you have, the big surplus to these markets. We cannot do it unless we meet the prices from competing countries, Denmark, Holland and so on. Now, there is a theoretical outlet there for milk on these markets but from prices quoted, you have them on page 2, you will get the differential which would leave Canadian production, the Canadian producers on the same price level to the producers, to the farmer, as they are today. In other words, the manufactured milk price today is based on the support price of butter which is 58 cents a pound. Your other prices in the manufactured fields start from there. That is the basis of establishing producer prices. Therefore, to give those producers the equivalent of the support price of butter you would have to have this assistance in the export of these whole milk products.

MR. STEWART: Incidentally, are the exports from Holland and Denmark subsidized?

MR. NADEAU: As far as we know, yes.

MR. STEWART: I gathered from this statement here that they probably are.

MR. NADEAU: Yes.

MR. STEWART: By the way then, if we get



into the export subsidizing business, isn't that just a competitive race then?

MR. NADEAU: That is their argument. If we subsidize, let us say, six cents a pound, and let us assume they are subsidizing six cents a pound, there is nothing to prevent them subsidizing eight cents a pound and we still have to come to eight cents and there is nothing to stop them going to ten cents and it is back and forth. We thought of that one and there is not very much we can do about it. But we feel there is a limit beyond which they cannot go either. After all, they must be limited in funds and there is a limit to what the producers will take in the way of low prices before it either affects their economy in the country or the producers' returns. Now, at the moment there is nothing else we can think of to help us get back our markets.

Now, we had a market in Venezuela where two or three years ago we were selling seven and eight million pounds of whole milk powder and those exports are now down below three million and simply because the Danish are in there, Holland and Denmark, and they are selling their butter at prices which we simply cannot meet in order to pay our producers a price based on a 58 cents a pound for butter. Now, we don't know of any other answer to it. We realize that danger, we all faced the danger and tried to find an answer.

MR. STEWART: The effect of that is that we really don't know what the magnitude of the subsidy might be.

MR. NADEAU: That is right.





MR. STEWART: I understand then that we want to stabilize this industry by preventing the competition of import materials and at the same time to maintain our export markets.

MR. NADEAU: That is right.

MR. STEWART: By subsidizing. Now, is there a proposition that you would generalize for any industry that found itself faced with a problem?

MR. NADEAU: I would not dare to speak for other industries. I have got enough trouble with this one.

MR. STEWART: Well, let me put it this way: are there any particular features of the dairy industry which might make it an exception to a general rule?

MR. NADEAU: Are you talking farm industries now? Other farm industries?

MR. STEWART: No, more generally than farm.

MR. NADEAU: Well, there is a very important feature.

MR. STEWART: Suppose we were simply not prepared to say at any time any industry gets into difficulties we will immediately prevent outside competition and subsidize exports, suppose we were not prepared to do that generally?

MR. NADEAU: Did you say prevent outside competition?

MR. STEWART: Yes.

MR. NADEAU: We don't want to prevent



outside competition. We just want to make it a little easier, that is all.

MR. STEWART: Let me put it this way then: you want to eliminate competition to the amount it will not reduce production and returns to the producer.

MR. NADEAU: At least not prevent the over-all industry from going to disaster, put it that way. You are faced with this peculiarity in this industry, particularly in this province, at the moment you have over a hundred thousand farmers, you have large sections of this country, they cannot do anything else but produce milk as a basis of their mixed farming, from which they earn their livelihood. It is not an industry to them, it is a way of life. The only possibility of milk utilization for those farmers at the moment is butter or cheese. You cannot take it as a unit and call it an industry and work it around any way. It won't work.

MR. STEWART: Well, the history of the industry as you have outlined it at the outset, would indicate that it is capable of very considerable adaptation to changing conditions.

MR. NADEAU: That is one part.

MR. STEWART: Within the period of time.

MR. NADEAU: That is about all, but, Doctor, you have done the easy part. You have taken the production in the larger centres and the more concentrated centres around the larger cities and done this. Now you are left with the difficult part, the balance of your problems, which is causing that big problem and which is supplying far too much butter.





In turn again you have the other problem that in our own industry where this year we had to convert the equivalent of three million pounds of whole milk powder which would be roughly 36 million pounds of milk into butter and skim milk because of the loss of export markets of whole milk products which has further aggravated the butter problem in this province and in the country as a whole.

MR. STEWART: What can you tell us about the efforts of the dairy chemists to discover a powdered milk which will be generally acceptable as a substitute for whole milk?

MR. NADEAU: Well, in the powdered milk field there are two main products, there is skim milk powder, of course, and the whole milk powder.

In the skim milk much work has been done and I think that we have now reached the point where we have a market, a number one instantly soluble good quality skim milk powder. That is a fact, it is on the market, it is in production and the consumption of this product -- I am just remembering, sticking out in my memory, has increased from less than a million pounds in 1950 to about 13 million this year. Now I may be out a few thousand one way or another but that is roughly the situation.

On whole milk powder, the problem is to get a product which will be acceptable to the consumer, as to taste and as to instant solubility. That is the problem. Now, it is very hard to make fat soluble in water, as you know, so research has been undertaken in conjunction with





the National Defense Research Medical Board in Ottawa and the subject has been under study at Macdonald College in the last two years and the study has been undertaken by Dr. Baker at Macdonald College. I saw some of the samples which he has produced in his laboratory which contained 2 per cent fat. I mean that is not the whole milk. Whole milk would contain approximately 3.5. But so far he has succeeded in obtaining an instant soluble product containing 2 per cent fat and he is now working on the process to bring this into commercial production because after all we want to make sure in making the changeover from lab to commercial that there won't be any mistakes because after all we are playing with a product which contains 2 per cent fat and which, as you know, costs money, which is as far as we have gone. And if the product comes on the market as is, 2 per cent fat, particularly with all the references in the light we hear about the dangers about too high fat consumption, I think it would replace or be a big seller.

MR. STEWART: So at the moment, suppose that did occur, that would be pretty discouraging to the whole milk producers, wouldn't it?

MR. NADEAU: It certainly would.

MR. STEWART: They have to go through a pretty difficult problem.

MR. NADEAU: They don't like it in any way, shape or form. They don't like whole skim powder at the moment.

MR. STEWART: But you don't mind the



industry having to grapple with that kind of problem?

MR. NADEAU: No, that is something that is in our own hands. We have some control over that. Those are problems which we have to meet. But right now we are not taking any flights into the open, we cannot do anything about it. And there are six or seven or ten manufacturers of margarine which will perhaps -- which will just take the market, that is as simple as A, B, C, and there is nothing we can say about it except make butter and pile it up in cold storage.

MR. STEWART: You refer in your brief to the consolidation of --

MR. NADEAU: Factories.

MR. STEWART: Factories, yes. This process is continuing?

MR. NADEAU: Yes.

MR. STEWART: Are these specializing still or is it a combination of products?

MR. NADEAU: You mean specializing -- you mean are they diversified?

MR. STEWART: Yes, are they butter factories and cheese factories or do they combine butter and cheese?

MR. NADEAU: Well, there are two types of consolidation going on, sir. The first one is the obvious one, the consolidation of smaller butter factories into a large butter factory or small cheese factories into a large factory. That is the first, and we can call that a regional or semi-regional consolidation. Then those are consolidated further. Then you get into your diversified





and specialized production because when you go into evaporated milk or whole milk powder or any product of that nature your capital cost is so high that you have to have sufficient and large volume of milk available and at your disposal for the processing and manufacturing of those products, and that is the consolidation that is continuing and in this particular province of Quebec the Government has encouraged it and is encouraging it by grants for such consolidations.

MR. STEWART: In other words, that is a good trend?

MR. NADEAU: Well, it is the economics of it. It is pretty near the only thing, let us put it that way, because the factory making 100,000 pounds of butter or 75,000 of butter here is a pretty efficient one.

MR. STEWART: What I am getting at is really this, you seem to be quite complacent about the fact that the factories have to adjust themselves to changing conditions but you don't want the farms to have to adjust themselves to changing conditions.

MR. NADEAU: I would not say that, but if you are going to do it, it is a gradual process. I feel that maybe in 25 years from now, if present production trends continue and present methods of farming, the improvement continues, you will have milk produced throughout this country on a much more economical basis than you have it now, but it has got to be gradual.

Now, my whole point is that if something



is not done now to keep the industry alive you are going to find it difficult to carry out your operations for the future.

MR. STEWART: I am afraid that I asked you to begin with whether this was temporary or permanent, whether the burden we are talking about would become a permanent part of the structure.

MR. NADEAU: Let us put it this way, it would be as permanent as temporary taxes which in my belief we can never remove.

MR. STEWART: You bring out quite clearly in one part of your brief, the significance in one part of the country of changes in the type of farming and the other specifically with reference to the prairies.

MR. NADEAU: Yes.

MR. STEWART: Shifting into grain and out of grain and so on. Does not that suggest that a good deal of the future of the dairy industry in Quebec depends upon the condition of other parts of the agricultural industry?

MR. NADEAU: Oh, yes, there is no doubt about that. I think you can put that vice versa, and again it is large for us in Eastern Canada. Now a few years ago you would probably recall that even better than I would, but there was a shortage of milk in the western prairie provinces and they provided a valuable market for eastern Canada, as a lot of milk products were shipped in there. Now, this year the trend seems to be reversed to a certain degree, I presume, in the market. They are milking more cows, that is the only answer to it, probably milking





a lot of cows that are not reported as milk cows, probably beef cows. There must be something, because the production out there of butter is increasing and the demand for milk from eastern Canada is away down.

MR. GRAUER: Is it your position, Mr. Nadeau, that if there were no subsidies of export of dairy products on the part of any country, that Canadian dairy farmers could get along quite well in the international markets? What is your view?

MR. NADEAU: Yes, to a certain degree there -- let us put it this way, that the situation would be less difficult. We would maybe have to take smaller returns in this and that but as a general picture I think we would be pretty well off. Now, naturally there are certain countries which produce at a much lower price or a lower rate than we do, but to revert back, I mean to say, if they can do it, let us see how far we can go in improving our methods of production to meet their production.

MR. GRAUER: If one had such a situation where in one way or another competition is equalized, is it your position that there would still have to be an excise on the importation of vegetable oils?

MR. NADEAU: At the moment, yes.

MR. GRAUER: They are not exclusive, the two requirements go together.

MR. NADEAU: Otherwise the position is going to take time and now is urgent, put it that way.

MR. GRAUER: I wonder for our information if you could briefly tell us what are the chief vegetable





oils that come into Canada and where do they come from?

MR. NADEAU: I can tell you what ones do come in, I don't know whether I can tell you where they come from or not. I have that here, I can get it for you. We learned a lot about vegetable oils in the last few years.

MR. GRAUER: Perhaps you can send that information in.

MR. NADEAU: I have it here, sir, if I can just put my fingers on it. Here it is, sir. This is 1954 imports into Canada of vegetable oils and oil-bearing seeds of the qualities suitable for use in the manufacture of margarine: Coconut oil 15 million pounds - I am giving you in round figures - Cotton Seed Oil, 55.7 million; Peanut Oil 2 million; Soybean Oil 6 million; Palm Oil 54 million and Sunflower Seed Oil less than a million -- 679,000 pounds.

MR. GRAUER: In this case is oil a by-product or is it a primary product?

MR. NADEAU: The importation that comes in that way, it came in in oil-bearing seed -- I am sorry --

MR. GRAUER: I mean is the producing of the oil as such a by-product?

MR. NADEAU: I don't know that in any product, if you can use the by-product for feed as a protein concentrate or the oil --

MR. GRAUER: I don't think you understand the question. When they produce that cotton seed oil, is that a prime product, is the whole of the cotton seed used for oil or is that oil a by-product of some



manufacturing process?

MR. NADEAU: I could not answer that. We imported in 1900 -- the total imports in 1954 were 235 million pounds of oil -- of oil.

MR. GRAUER: It might give a final answer to Dr. Stewart's question, milk is the primary product of the cow, I suppose, isn't it?

MR. NADEAU: That is right.

MR. GUSHUE: Are all these oils used in the manufacture of margarine or are they used for other purposes?

MR. NADEAU: They are used for other purposes, sir. They are used for shortening, for hand lotion, oil in paint, salad dressings. We produced in Canada during that same year, 30 million pounds of soya bean oil which would mean if you took our Canadian production and related it to the total imports, our Canadian production would amount to about one-ninth of the total available for the production of margarine, and the only product, I think, from which we get oil here in Canada is soya bean.

MR. GUSHUE: That is a growing industry, is it not, in Canada?

MR. NADEAU: What?

MR. GUSHUE: Soya bean oil?

MR. NADEAU: Well, I don't know how it can be growing when I understand from reliable sources that the only place you can grow soya bean for oil is a small section in south-western Ontario. They tell me that you can grow soya bean, that is all right, but





they tell me if the climate changes, if the weather is cold, as the weather gets colder, the percentage of the oil extracted from the soya bean decreases and it gets to the point where it does not become economic. Now, I have not made too much survey into that except that is the information they give us.

MR. GRAUER: The trend you mentioned in milk production which has been going on, that throws butter fat on another market, is that the butter market?

MR. NADEAU: That is the butter market. That is why there is a very good industry there for Canada and a very nice industry which is growing nicely but it does aggravate the butter industry to a greater degree because the fat is taken from milk and it goes back into the butter market.

THE CHAIRMAN: Mr. Nadeau, I have just one question I would like to ask. On page 2, I think it is, yes, you showed that in Quebec the number of farms dropped from 135,957 in 1931 to 134,366 in 1951, which is a reduction of 1.1 percent in the 20 years. Now, I am just looking in my bag, I have not got the similar figures for the whole of Canada, but during that 20 year period the reduction in farm labor force was of the order of 27 per cent, and certainly there would have been a trend towards considerably larger farms in western Canada and some noticeable trend I would think in Ontario and probably the Maritimes. It has been suggested to us in other parts of the country that that trend will probably continue in other parts of the country that certainly the percentage



of the total labour force employed in agriculture is likely to reduce, that the trend in the movement of people from the farms to the cities will probably increase, and that the trend will be toward larger farms in order to make full use of machinery and so on. I recall that in answer to one of Dr. Stewart's questions you pointed out that in thinking of the dairy industry, particularly in this province, it should not be thought of merely in terms of an industry but I think the phrase you used was that it was a way of life here in the Province of Quebec. I might say that we naturally are familiar with that and if we ever forgot we would be reminded by one of our colleagues that that is a way of life in the Province of Quebec. But I think what we would like to know from you, with your experience in agriculture in this province, is whether you think there is any likelihood over a period of years of a trend along the lines that has been noted, has become apparent in other parts of the country, towards larger farms, consolidation of holdings and so on, in order to meet the kind of competition you talk about?

MR. NADEAU: Well, before I answer your question, I think I remember for Canada, if you would permit it, a report of the occupied farms, 728,000 in 1931 and 623,000 in 1951. I don't think Quebec ---

THE CHAIRMAN: Nearly 15 per cent.

MR. NADEAU: I don't think Quebec can subtract itself from that trend which is towards consolidation. You have consolidation of factories.

THE CHAIRMAN: Yes.





MR. NADEAU: We are having consolidation of marketing and I think we are going to have consolidation of farming. Now, to what degree that will come I don't know. I expect that you are going to see more resistance to it in the Province of Quebec, particularly in rural areas, outside the influence of the large centres, where the parish as a unit is a very important thing. Now, within the boundaries of that parish I think we can see more consolidation but it won't change the picture much. One, two or three might, to permit the neighbour who is more enterprising, let us say, has more children, or even has a child that won't stay on the land, to avail themselves of mechanized methods of farming with more ease. There is also a trend which is developing in connection of that mechanization which I think is more important, that is we have gone from nothing, let us say, to everybody talking about mechanized agriculture. Well, that is good to the point, if it is restricted to the point where it is needed. But in my opinion we have seen that trend go beyond the economics of the need, and farmers, without perhaps too much knowledge of what they were doing, have embarked on a buying policy of different equipment which is only used maybe one week a year and they have stood idle all year.

Now, we have embarked in Quebec on a programme to direct the purchasing and the mechanization of farms and to consolidate in many cases farm machinery which could be used by groups instead of by one for a week or something like that. That is sheer economics,





again, but I think I go along with you, that I agree with you there is going to be that consolidation of farming, except I think it is going to be slower and perhaps -- I would not say more directed -- but directed, closer surveyed in this province. I am not talking about right around Montreal now, there is no doubt about that.

THE CHAIRMAN: Well, we are most grateful to you for coming here --

MR. LUSSIER: Just one question ----

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M. OMER LUSSIER :

Juste une question qui n'est d'ailleurs peut-être pas bien importante, et qui ne contribuera peut-être pas aussi à guérir les maux dont vous souffrez, mais est-ce qu'il n'y a pas moyen, dans la Province de Québec, d'augmenter la consommation du lait nature?

M. J. P. NADEAU :

Oui monsieur.

M. OMER LUSSIER :

Par exemple, dans nos maisons d'institution, nos patronages, nos hôpitaux, nos écoles, etc, etc, nous n'avons pas encore atteint le maximum de consommation que nous pourrions avoir. Croyez-vous qu'il y ait quelque chose à faire de ce côté-là?

M. J. P. NADEAU :

Oui, il y a beaucoup à faire, il y a beaucoup. Premièrement avec une campagne d'éducation. On va commencer avec les écoles, nous avons besoin d'une campagne d'aide vers l'alimentation du lait dans les écoles, ils le font aux Etats-Unis, ils ont un programme très efficace dans lequel le gouvernement, les industries et les producteurs coopèrent à défrayer les frais du lait consommé dans les écoles. Deuxièmement, il y a une source de consommation là considérable, en plus du fait que l'individu qui s'habitue à boire du lait va continuer à en boire. Vous avez nos maisons d'éducation, vous avez nos institutions dont vous avez parlé. Pour eux, ce n'est pas le manque de connaissance du lait, c'est souvent de l'économie.

M. OMER LUSSIER :

C'est ça.





M. J. P. NADEAU :

C'est souvent de l'économie, et pendant qu'on empêche nos enfants des institutions d'avoir du lait à un prix peut-être moindre que le prix réel régulier, tout de même il y a le mi-chemin entre ça et le prix de la beurrerie.

M. OMER LUSSIER :

En somme, il y a là un moyen pour le gouvernement d'aider la consommation en revendant, même en donnant gratuitement dans ces institutions au lieu de donner un subside qui n'est peut-être pas immoral, mais qui est difficile à expliquer. Vous auriez là un profit direct à la population, et une aide à la consommation.

MR. J. P. NADEAU :

Did you get that?

THE CHAIRMAN :

No, he speaks too fast for me.

It is a question he asked me if there was anything to be done in the Province of Quebec with particular reference to the consumption of fluid milk in schools and institutions and so on. I said yes because after all there is a tremendous market there. Now, United States is doing a lot on the school milk programs, the cost of which could be shared by producers, manufacturers and the Government. I think there is a tremendous field there for increasing the consumption of fluid milk and to my mind it is a sheer stupidity not to have done something before.

M. OMER LUSSIER :

Une autre question, c'est celle-ci : De plus en plus, nous abandonnons, je crois, la fabrication des fromages, ou encore elle



se maintient tout simplement. Est-ce que dans la province de Québec, il n'y aurait pas moyen de fabriquer plus de variétés de fromage et en même temps d'y encourager la consommation des fromages avec des variétés nouvelles?

M. J. P. NADEAU :

Voici, le problème de la fabrication de plusieurs petits fromages est un problème économique. On ne peut pas en produire, de ces petits fromages parce que le volume de vente ne justifie pas la production. Vous avez - presque tous vos petits fromages sont des fromages qui ont .. dont la durée de vie n'est pas très longue. Il faut qu'ils soient mangés frais, et il faut qu'ils soient mangés sans trop de distance, de transport. Vous avez le problème des retours. Vous avez tous ces problèmes-là qui surviennent et qui rendent en somme l'affaire complètement non économique.

M. OMER LUSSIER :

De même, on en importe de ces fromages-là.

M. J. P. NADEAU :

Oui. We imported cheese from eighteen countries last year and we imported Danish Blue, Greuyere, Roquefort, Paresan, Pecorino, Provolone, Ramano, Gouda, Swiss Knight, Chalet, Babybel, Domestic Swiss, Primost.

M. OMER LUSSIER :

Savez-vous le montant que ça pouvait représenter en argent, ça?

M. J. P. NADEAU :

En argent, non.





M. OMER LUSSIER :

Combien de livres?

M. J. P. NADEAU :

Importations other than cheddar cheese last year  
6.6 million. 6.6 millions, et l'an dernier, 1.6 million.

M. OMER LUSSIER :

Alors, ça augmente énormément?

MR. J. P. NADEAU :

It is increasing because we are bringing in people from Europe, and we are bringing them in over here and so why wouldn't we have these cheeses here? That is what they have been used to, and there is quite a relationship between the consumption of European type cheese and the immigration policy.

M. OMER LUSSIER :

Alors, ça augmente énormément?

M. J. P. NADEAU :

Mais ça augmente beaucoup.

M. OMER LUSSIER :

Est-ce qu'on fait des recherches tout de même dans votre industrie pour savoir s'il n'y a pas de possibilité de produire certains fromages - vous avez mentionné des petits fromages là comme pouvant être consommés immédiatement, mais il y en a d'autres comme le Gruyère.

M. J. P. NADEAU :





C'est le problème de volume et de distribution. Vous prenez le fromage d'Oka, vous êtes familiers avec le fromage d'Oka; vous savez que pour avoir la distribution qu'ils ont, ils marchent avec la compagnie Kraft pour avoir leur distribution. Vous avez Man Clément qui fait un Gruyère à St-Hilaire; c'est Kraft qui fait la distribution. C'est le problème de distribution qui est prohibitif.

M. OMER LUSSIER :

Prohibitif pour nous, mais ce n'est pas prohibitif pour les pays étrangers.

M. J. P. NADEAU :

C'est parce qu'eux autres, les pays étrangers, en France surtout, chaque paroisse ou chaque région a leur fromage.

M. OMER LUSSIER :

Mais ils nous l'envoient ici.

M. J. P. NADEAU :

Ils nous l'envoient ici, mais à qui? A des gens qui ont la grosse distribution.

M. OMER LUSSIER :

Est-ce qu'il n'y a pas un moyen de régler ce problème de distribution-là?

M. J. P. NADEAU :

Je sais bien que s'il y avait un moyen de le régler, qu'il y en aurait plusieurs qui l'auraient essayé.

M. OMER LUSSIER :

Je vous pose la question. Je vous remercie M. Nadeau.

( Page 3595 follows).



MR. GRAUER: Mr. Nadeua, I wonder if it would be possible to provide the Commission with the figures showing the manner in which other countries subsidize the export of milk products?

MR. NADEAU: I could try and get those figures.

MR. GRAUER: I think it would be very useful.

MR. NADEAU: There was one point which I wanted to bring out here this morning, I will just make a note of it if I may, and that was the question of how other countries limit margarine production. As we know, Australia limits the margarine on a quota basis by agreement between the five states. New Zealand prevents the manufacture of table margarine and only allows margarine for cooking. How they distinguish between both, I don't know. The same with Australia. You see, this quota basis in Australia is by agreement between five states. Now we would have to have an agreement in Canada between 10 provinces and that would be pretty difficult. And then in South Africa margarine is only sold to social welfare agencies.

MR. GRAUER: And all these facts would be very useful to the Commission.

MR. NADEAU: I can have all those facts sent to you, sir.

MR. GUSHUE: Are you suggesting import duties on some of the oils that go for use in the manufacture of margarine or are you suggesting an excise on margarine?





MR. NADEAU: I am suggesting an excise, sir.

MR. GUSHUE: On the margarine itself.

MR. NADEAU: You see, you start a duty and you run afoul of international problems, and that is one angle. Too, if you put a duty you will have to allow draw-backs for shortening and other products which are not margarine. Therefore, what they will do, they will convert the fish oil in Canada and the soya bean oil, to margarine, and get the draw-back. So the thing will defeat itself.

MR. GUSHUE: So you are suggesting if margarine were made from fish oil and soya bean oil produced in Canada, there still should be an excise?

MR. NADEAU: Yes. To get the point, is that it is the wide spread between the two products.

MR. GUSHUE: The spread in price?

MR. NADEAU: Yes, sir.

MR. GUSHUE: But suppose the two were made from Canadian sources, Canadian margarine, you would sell the margarine as one product.

MR. NADEAU: Providing you had a wide tariff on the imported production, otherwise it would not be economical to produce it in Canada.

MR. GUSHUE: Don't you think the tariff on the oils might encourage the production of greater quantities of oil seed in Canada?

MR. NADEAU: You would have to have a high tariff, that is what I say, on the imported production to encourage the increased Canadian production.

MR. GUSHUE: How would you suggest a tariff



on the locally produced?

MR. NADEAU: You would not on the locally produced but if you had a high tariff your Canadian price would go up.

MR. GUSHUE: You would still have your variation of oils. I am just putting the question, assuming you have a margarine which is made of fish oil and Canadian soya bean oil or sunflower seed oil, how would you treat that? Would you suggest an excise for all margarine so produced?

MR. NADEAU: Well, you would not need to, if you had a high tariff on the imported product.

MR. GUSHUE: You mean because of the high tariff on the imported oils?

MR. NADEAU: Your margarine ---

MR. GUSHUE: The margarine producers would put their price up?

MR. NADEAU: Yes.

MR. GUSHUE: That would be a greater cost to the consumer, wouldn't it?

MR. NADEAU: Oh, one way or another it is going to be a cost to the consumer. That is the other angle to this problem.

MR. GUSHUE: We often forget the consumer.

MR. NADEAU: Because if you don't assist a large industry like the dairy industry, which is a tremendously big consumer, there is a lot of Canadian produce that won't be produced, and then in turn the consumer who is working in those industries won't have the money anyway to buy anything.



MR. GUSHUE: I am rather interested in looking at the picture of two producers, both Canadian, one producing dairy products, the other producing margarine from Canadian sources.

MR. NADEAU: The only way you will ever get enough oil in Canada home-grown -- well, I don't know how you would do it -- the only way you could do it, the only way you could hope to do it, would be to have a high tariff on the imported oil.

MR. GUSHUE: Because they can produce the oil cheaper than milk.

MR. NADEAU: We are not organized to produce that oil. Our climatic conditions are not in favour of that.

THE CHAIRMAN: Anything else?

MR. GUSHUE: No.

THE CHAIRMAN: Thank you very much, Mr. Nadeau, not only for your brief but for the way in which you have answered all these questions. It will help us a very great deal and we are most appreciative.

MR. NADEAU: Thank you, gentlemen, and I certainly hope that out of it will be some help to the dairy industry.

THE CHAIRMAN: We will adjourn until 2:30.

(At 1:00 P.M. the Commission adjourned until 2:30 P.M.)

(Page 3600 follows)





AFTERNOON SESSION

THE CHAIRMAN :

The item on the agenda this afternoon is the presentation by the Caisse Populaire. We have a submission which we will mark exhibit 106. Senator Vaillancourt will you be kind enough to present it to us?

SENATEUR VAILLANCOURT :

Vous avez devant vous un mémoire que je ne lirai pas en son entier, il va sans dire; je vais simplement vous donner un résumé de la thèse que nous voulons présenter, en résumé, à la page 18.

Notre organisme de Caisses Populaires est un organisme qui fait affaires spécialement avec les petites gens, que je pourrais dire, les gens de la classe laborieuse, Labour People, et nous essayons de faire l'éducation de ces gens-là au point de vue épargne comme au point de vue crédit pour essayer de stabiliser l'économie de ces gens-là. Or, voici donc le résumé :

Nous avons voulu, dans notre mémoire, démontrer d'abord le but des Caisses Populaires qui est d'aider les gens de la classe laborieuse en leur prêchant la vertu d'épargne, en leur facilitant des prêts à des taux d'intérêt le plus bas possible, en leur procurant le moyen d'épargner même les sous. On s' imagine souvent que pour épargner il faut posséder des dollars; c'est en épargnant des sous qu'on finit par avoir des dollars.

Inutile de démontrer ici la puissance de la vertu d'épargne qui est formatrice et même créatrice de volonté, puisque le fait d'épargner exige de la volonté. Epargner, c'est ne pas gaspiller le surplus



que l'on a . - Je ne sais pas si je devrais faire ici une petite digression. Souventes fois on parle d'économie. Moi, j'ai ma définition à moi : L'économie, c'est l'art de bien employer ce qu'on a; un quelqu'un qui gagne \$50 ou \$60 par semaine, il vit bien avec ça. D'autres, avec le même montant d'argent sont dans les dettes par-dessus la tête. Donc, il n'y a pas d'économie. Tandis que l'épargne, c'est celui qui a un \$5 dans sa poche de surplus, et qui ne le gaspille pas. That's the difference between economy and saving. Economy is to use orderly the money you can get, and saving, not "gaspiller".

THE CHAIRMAN :

Not squander.

MR. VAILLANCOURT :

Not squander the surplus we have.

Epargner, c'est ne pas gaspiller le surplus que l'on a, ce qui demande du caractère car la tentation est toujours là pour nous entraîner à dépenser ce surplus, et très souvent de façon inutile.

Celui qui ne dépense pas le surplus qu'il a, pour ne pas le faire, il faut de la volonté.

Le fondateur des Caisses populaires a toujours enseigné, au cours de sa vie - et ses principes demeurent pour nous les mêmes depuis qu'il est disparu - de faciliter le crédit aux gens qui en ont besoin, mais un crédit productif, c'est-à-dire, ne jamais prêter pour des choses frivoles ou plus ou moins utiles qui, souvent, placent l'emprunteur dans une situation précaire. Une Caisse populaire ne saurait prêter, par exemple, pour permettre à un sociétaire de faire une excursion,





un voyage de plaisir si cet individu n'a pas réussi à mettre de côté à l'avance le montant nécessaire pour se payer une excursion, comment arrivera -t-il demain à rembourser un tel emprunt? La chose ne serait pas la même si on demandait pour faire un voyage de convalescence.

Les prêts par les Caisses Populaires doivent être faits pour des fins productives ou avantageuses. On parle de sécurité sociale; une telle sécurité ne pourra vraiment exister aussi longtemps qu'on n'aura pas assuré la sécurité de la famille: sécurité morale, sécurité matérielle, sécurité du logement. Lorsque toutes les familles posséderont leur propre foyer, la sécurité sera plus stable, il y aura moins d'idées subversives, car celui qui a sa propre maison, qui possède son petit coin de terre, veut protéger son bien et le défendre. Quand le père et la mère vivent avec leurs enfants dans un foyer qui est bien à eux, l'harmonie et la paix règnent plus facilement. Le foyer, c'est le sanctuaire de la famille qu'abrite le bonheur de chacun.

Voici pourquoi vous verrez dans notre mémoire nous mettons un montant considérable que les Caisses prêtent à l'habitation. Nous avions au mois de juin 1955 pratiquement \$148,000,000 prêtés sur l'habitation, sur un total de \$375,000,000 d'actif.

M. OMER LUSSIER :

En 1955?

HONORABLE SENATEUR VAILLANCOURT :

Oui, le 30 juin 1955.

M. OMER LUSSIER :

Sur un actif de . . . ?



HONORABLE SENATEUR VAILLANCOURT :

A ce moment-là de \$375,000,000.

Les Caisses Populaires ne font pas de prêts, avons-nous dit, pour des choses futiles et encore moins nuisibles. Nous nous demandons si ce ne serait pas une bonne chose que le Gouvernement contrôle les ventes à tempérament. Les articles nécessaires, vraiment utiles, tels que réfrigérateurs, poêles, laveuses, machines à coudre, pourraient être vendus à terme moyennant un certain montant comptant; mais aux choses qui, sans être mauvaises en elles-mêmes, sont plutôt de luxe: radios, télévisions, etc., on devrait exiger de l'acheteur un acompte d'au moins 50%. Ce serait, à notre point de vue, un des meilleurs moyens d'éviter ou de contrôler l'inflation.

Ces ventes à tempérament sont faites à des taux d'intérêt assez élevés. Jusqu'à concurrence de \$500.00, le taux d'intérêt est de 2% par mois, ce qui fait plus de 24% par année. Celui qui achète pour \$500.00, payable en 24 mois, devra remettre mensuellement \$26.46, et au bout de deux ans, il aura payé \$135.04 en intérêts sur ce \$500.00.

Au lieu de procéder ainsi, si l'acheteur déposait, disons \$20.00 par mois dans une Caisse Populaire, il aurait, après 24 mois, \$480.00 en dépôt; avec les intérêts à 2½% composés semi-annuellement que lui paiera la Caisse, il aurait alors plus que \$500.00. Par le fait même, il aurait économisé sur ce même achat \$135.04. C'est un exemple assez frappant et assez concluant.

Les prêts en cours ou crédit à la consommation s'élevaient à \$2,098,000,000 au 30 juin 1955. C'est une augmentation de 11%





des dettes de la consommation au cours de la période juin 1954 juin 1955. Est-il exagéré de dire que nombreux sont les canadiens qui ont hypothéqué un peu trop leur avenir dans des achats à tempérament. Si l'achat à tempérament a ses avantages, il a aussi certes des inconvénients; c'est une arme à deux tranchants, de maniement difficile, voire périlleux; il fait entrer en ligne de compte un avenir incertain qu'on envisage à tort avec certitude, et sur lequel on est exposé à bâtir ce qui peut s'avérer à la fin de vraies illusions d'optique, avec les déboires et les désillusions, et les mauvais réveils qui s'ensuivent. On serait peut-être stupéfié de connaître les pertes qu'ont subies depuis quelques années ceux qui, par manque de tempérance ou par mauvais calculs, ont trop acheté à tempérament. Ceux qui pratiquent la vente à crédit pourraient nous renseigner à ce propos.

L'achat à tempérament peut avoir certains avantages immédiats pour l'individu et l'économie. Mais, outre les avantages, il faut prendre en considération les inconvénients qui peuvent en résulter pour l'économie de demain. Qu'arriverait-il si tous les citoyens épuisaient par des achats à crédit, leur pouvoir d'achat pour quelques années à venir? Car l'achat à tempérament engage l'avenir; le salaire qu'on recevra demain est déjà promis à des remboursements à faire sur des achats non payés. Comme le pouvoir d'achat de chacun est limité, il peut bien se produire un jour une contraction plus ou moins brusque des achats, puis une réduction accentuée de la production, avec, comme conséquence tragique pour notre économie, le chômage et la chute à pic, cette fois, du pouvoir d'achat du pays.

Vous vous rendez compte que la vente à tempérament





est une arme à deux tranchants. Si elle peut activer aujourd'hui la production et permettre aux citoyens de hausser leur train de vie, elle peut bien demain causer une catastrophe si les citoyens abusent des achats à tempérament. L'achat à tempérament, c'est comme la dynamite; ça peut être très utile en certaines circonstances, mais son usage s'avère toujours fort dangereux et à bien surveiller.

On peut se demander devant cette expansion inquiétante du crédit à la consommation, si l'Etat, qui a le devoir d'assurer de son mieux la stabilité économique, ne devrait pas imposer une certaine réglementation susceptible d'en écarter les abus et de protéger ainsi notre économie.

L'achat à tempérament ne saurait être envisagé comme une forme d'épargne en alléguant qu'elle se distinguerait de l'épargne par ce seul caractère accidentel qu'elle est effectuée après coup et qu'elle peut être appelée épargne à retardement. Il faut prendre en considération que les acomptes versés en réduction de ses dettes provenant d'achat à tempérament représentent une soustraction et une réduction du montant total de son revenu disponible pour d'autres dépenses et que le risque est grand que le revenu disponible provenant de son salaire s'avère, après une telle réduction, insuffisant aux dépenses essentielles pour la nourriture, le vêtement et le logement. L'idée de prévoyance intelligente cède la place à des illusions d'optique et à un faux mirage.

C'est pourquoi, pour protéger l'économie et les citoyens, l'Etat fédéral devrait-il adopter une législation qui viendrait réglementer les ventes à tempérament.



En conclusion, la pratique de l'épargne n'est pas, comme certaines gens s'imaginent, de l'avarice, de la thésaurisation; bien au contraire, c'est, en plus de tous ses autres bienfaits, la prévoyance pour l'avenir: rendu à un certain âge, l'épargnant sera capable de continuer son train de vie habituel au lieu d'avoir à compter uniquement sur les revenus des lois sociales.

Tout ce que l'on pourra faire pour protéger ces organismes composés de petits épargnants, qui rendent des services incalculables, sera de nature à assurer le bien-être de la nation.

J'ai ici des statistiques qui ne sont pas dans votre mémoire, mais que je vais me permettre de vous passer aussi. Ca c'est la situation, l'actif et le passif des Caisses Populaires, la situation des Caisses Régionales et en outre de ça, nous avons séparé - nous séparons plutôt les caisses urbaines, de villes, semi-urbaines, de petites villes, et des caisses rurales afin de pouvoir juger de l'économie dans chaque secteur, puis vous verrez dans un autre tableau qui n'est pas attaché à votre mémoire, mais que je vais vous communiquer, parce que nous séparons là des caisses urbaines, semi-urbaines, et rurales, et nous nous sommes demandés, depuis quelques années, avec des statistiques, comment se répartissait l'économie chez-nous dans les villes, dans les petites villes, dans les campagnes, et par région, parce que les pêcheurs de la Gaspésie et les cultivateurs de la Beauce ne peuvent pas être comparés.

Alors, sur le tableau que vous allez voir ici, vous allez voir sur chaque dollar qui entre à l'épargne à nos caisses populaires, combien en reste-t-il à la fin de l'année. C'est ça qui est important.







Alors, nous avons commencé ces chiffres-là il y a cinq ans, et là vous allez voir que dans l'ensemble des Caisses, là vous voyez la fluctuation de l'économie, dans l'ensemble des Caisses. En 1950, sur chaque dollar déposé, il en est resté 2.50 cents; en 1951, 4.4 cents; en 1952 5.1 cents; en 1953, 3 cents; en 1954, 3.5 cents. En 1955, probablement que ça va être un peu plus haut.

Vous allez peut-être vous dire, vous demander comment il se fait que pour 1951, 1952, il y avait 4.4 cents et 5.1 cents. Il y a deux causes : D'abord, c'est le développement des caisses, surtout dans les villes; dans la région de Montréal, on n'avait pas beaucoup poussé le développement des Caisses, et là on l'a poussé.

Mais il y a autre chose : La crainte est le commencement de la sagesse, dit-on. Or, si vous vous rappelez, en 1951 et 1952, il y a eu une régression, et les gens ont dit : "Faisons attention, il y a une crise qui s'en vient". Et les gens se sont mis à économiser. Et certaines gens, voyant ces choses-là, ont dit : "Il faut contrebalancer à ça". Alors, on s'est mis à annoncer n'importe quoi en vente avec pas un sou à débours. C'est la contrepartie qui s'est faite.

Maintenant, jusqu'où est-ce que ça va aller? On est rendu, je crois qu'on vend des parts dans la lune. Alors, voyez vous, il me semble que c'est pour ça qu'on pourrait faire une restriction. Pendant la guerre et après la guerre, on avait mis des restrictions sur les achats, les choses de luxe surtout, et là, ça s'est stabilisé tranquillement.

A un moment donné, on a dit : "Il faut enlever ça parce



que les manufacturiers vont cesser de manufacturer , tandis que c'est l'entreprise qui est arrivée au point de ce qui est effarant, on manque d'acier, par exemple, on donne des commandes d'acier, et on dit : "Vous aurez ça dans huit ou dix mois d'ici", et c'est autre chose qui prend la place.

Il me semble qu'au point de vue saine économie, qu'on donne la chance aux gens d'avoir des choses nécessaires en leur facilitant ces achats-là, puis nous prêterons sur des choses utiles, mais nous ne pourrons pas prêter sur des choses qui vont mettre les emprunteurs dans une mauvaise situation demain.

La semaine dernière, quelqu'un venait à mon bureau et demandait : "Vous nous parlez d'inflation. C'est un ballon qui gonfle et à un moment donné il va crever, mais on ne le voit pas, cette affaire-là, c'est rien que de l'air et du vent." Alors, dans ce moment-là, j'ai eu un exemple frappant que je vais donner à des gens dans un prochain numéro de la Revue Desjardins, un exemple d'inflation.

Voici un bonhomme qui s'amène mardi ou lundi plutôt, à mon bureau: "J'ai emprunté à telle Caisse Populaire \$1,200 il y a quelques années, sur hypothèque. Je les ai tout payés, et aujourd'hui j'ai un meilleur salaire, plus de revenus, je peux leur donner une meilleure maison; je leur demande \$4,000 et ils ne veulent pas." Ca, c'était son histoire.

Alors, je demande l'histoire du gérant de la Caisse. Il dit ceci : "Nous avons prêté il y a quelques années \$1,250 à monsieur Un Tel, et à ce moment-là, il est venu pour nous en demander \$3,000. On





n'a pas voulu parce que depuis qu'il a emprunté \$1,250, ses dettes avaient monté comme ça, et elles avaient monté comme ça pourquoi? Parce que le bonhomme avait acheté une automobile strictement pour se promener entre ses heures de travail. Remarquez, c'est un bonhomme qui gagne \$425 par mois. Or, il dit, quand il est revenu - et là, actuellement, il a emprunté de Finance . . . . une compagnie de finance, ça lui coûte 24% - 18%, pardon, par année. Alors, il dit : "Quand à la Caisse ils me prêtent à 5%." Voyez-vous dans quelle situation vous nous mettez? Alors, la Caisse dit : "Ecoutez un peu, on va vous prêter \$3,000, vous en demandez \$4,000, mais vendez votre auto \$1,000 et ça va combler la différence, et là vous allez remettre l'argent." Le bonhomme dit : "J'en ai besoin pour m'amuser". Vous avez un exemple de qu'est ce que c'est que l'inflation.

Voici un bonhomme qui gagne \$425, et demain sa maison va être vendue. Il a deux enfants, mais il lui faut une automobile pour s'amuser. Je pense que ça, c'est le meilleur exemple d'inflation, un cas concret. Ces choses-là - il a acheté son "bazou", comme disent les gens, avec pas un sou comptant. Il n'est pas assuré à part ça, s'il a un accident, qu'il tue quelqu'un, l'autre, non seulement va être mort, mais ses héritiers n'auront pas un sou, et lui va être ruiné pour le restant de ses jours.

Voici, messieurs, cette thèse que je voulais développer devant vous afin d'essayer de prévenir si possible des crises comme celle de 1929 à 1939.

Et un autre exemple, justement, de 1929 à 1939, même





vous vous rappelez qu'en 1929 la crise a commencé, à ce moment-là les gens jouaient à la Bourse, on déboursait dix pour cent et le reste était fourni par les sociétés de finance ou par la banque, et quand est arrivée la crise, personne n'était capable de combler le vide qu'il y avait.

Aujourd'hui, personne ne peut acheter à la Bourse sans avoir payé cinquante pour cent comptant - aux Etats-Unis, c'est soixante pour cent comptant. Il y a quelques mois, il y a eu une course à la Bourse, monsieur Eisenhower a été malade, on s'est imaginé que c'était une affaire, les gens qui ont voulu spéculer là-dessus ont voulu écraser la Bourse. Pourquoi? Parce qu'aux Etats-Unis il y avait soixante pour cent de payé d'avance, et les gens étaient capables de combler la différence. Vous avez là un exemple - il me semble qu'en faisant comprendre aux gens la stabilité, que l'épargne c'est d'assurer la stabilité: Aujourd'hui je vis de telle façon avec tel revenu, j'en mets de côté, quand je serai rendu à ma retraite, je pourrai continuer mon même train de vie comme avant, parce que j'aurai été assez sage de mettre de côté des argents me permettant de continuer à vivre sagement.

Maintenant, si vous avez des questions à poser ....

M. OMER LUSSIER :

Nous vous remercions, monsieur le Sénateur, du très intéressant exposé que vous avez fait des Caisses Populaires, et en même temps de la façon que vous voyez l'économie dans le pays.

Ce travail-là est très intéressant, et nous aimerions avoir tous les renseignements possibles qui peuvent concerner les Caisses



Populaires, et je suis convaincu que mes collègues vont tirer des leçons très importantes du travail qui se fait à la Caisse Populaire.

C'est surtout dans la province de Québec, si je comprends bien, au Canada, où ce genre de crédit, ce genre de caisses existe le plus. Il y en a ailleurs, mais pas de cette façon.

HONORABLE SENATEUR VAILLANCOURT :

On ne procède pas tout-à-fait de la même façon.

M. OMER LUSSIER :

Vous ne procédez pas tout-à-fait de la même façon.

Vous avez parlé d'abord de l'influence des Caisses Populaires, influence sur la famille, influence morale, etc. C'est exact. Mais vous avez parlé aussi de l'influence sur la propriété privée, vous nous avez dit, à ma grande surprise, que vous aviez déjà \$148,000,000 de prêtés sur la propriété privée. Maintenant, quelles sont les conditions de prêts que vous faites pour un type qui veut se construire? Exigez-vous d'abord une certaine avance personnelle?

HONORABLE SENATEUR VAILLANCOURT :

Oui, la première chose, lorsqu'on fait un prêt, surtout un prêt dans ce genre-là, ou n'importe quel prêt, on regarde la moralité de l'emprunteur, première chose, si un type s'en vient chez-nous pour emprunter pour faire du "bootlegging" ..... alors, on regarde sa moralité. Deuxièmement, après ça, on regarde son pouvoir de remboursement.

Maintenant, on ne prête jamais à cent pour cent de





ce que ça coûte, mais des fois qu'on va pas mal loin , parce que voici un quelqu'un qui , depuis dix ou quinze ans, est dans la même situation, une bonne situation, il paye son loyer régulièrement, il a une grosse famille, il n'a pas été capable de se mettre beaucoup d'argent de côté. Ce n'est pas parce qu'il va se construire qu'il va devenir un gaspilleur . Alors, on regarde la solvabilité, sa situation, sa vie ordinaire. Tout nous porte à venir en aide à ce bonhomme-là. On va alors lui prêter.

Maintenant, il ne s'agit pas rien que de prêter, il s'agit d'être remboursé, parce que les argents qu'on nous confie, on peut nous le demander, cet argent-là, et il faut assurer aussi - j'ai parlé de la sécurité, c'est ça qu'on juge : sécurité morale, sécurité matérielle, la sécurité sociale que l'on prêche partout. Or, l'emprunteur, du moment qu'il a emprunté, son prêt est assuré au cas de mortalité, jusqu'à concurrence de \$10,000. Or, les remboursements se font mensuellement, c'est comme un loyer, comme la société centrale d'hypothèque - je pense bien qu'elle n'a pas copié sur nous autres, mais on était avant eux autres dans ce domaine-là.

Là, en même temps qu'il fait sa remise mensuelle, tout est calculé, son intérêt, sa prime d'assurance, ça coûte \$0.06 par cent dollars par mois et dans quelques années, si on ne perd pas trop d'argent, on donnera une ristourne sur le trop perçu.

Alors, jusqu'à concurrence de \$10,000, le prêt est assuré. Si le bonhomme meurt ou devient invalide, la société d'assurance paye ce qui reste dû aux héritiers ou à la femme si elle devient veuve. En



empruntant chez-nous, l'emprunteur se sent en meilleure sécurité que n'importe où ailleurs, parce qu'il dit : Nous autres, on ne le bâdrera pas pourvu qu'il se rende à ses engagements, et deuxièmement s'il arrive malheur, malgré la sécurité qu'on a au point de vue d'argent, parce qu'on a une hypothèque, notre argent est protégé, mais il assure la sécurité de sa femme et de ses enfants.

Il y a quelques mois, une mère de famille avec sept enfants, son mari s'est fait tuer accidentellement, comme ça, en automobile puis elle s'est en venue à la Caisse Populaire, et il devait \$7,000 quelques cents dollars, il avait sept enfants, ce sont des pauvres habitants qui vivaient bien, mais c'était des cultivateurs, et quand j'ai dit : "Madame, vous ne devez rien," elle se voyait son mari parti, sa terre vendue, ses enfants dans le chemin, puis : "Qu'est-ce que je vais faire là?"

On dit : "Votre terre est payée, l'assurance l'a payée, restez chez vous tranquille, continuez avec vos enfants à les élever, vos enfants". Ca c'est une sécurité pas mal extraordinaire. Alors, la société, au lieu d'avoir eu sept enfants à nourrir et à loger et à vêtir, etc, les gens restaient chez-eux.

M. OMER LUSSIER :

Vos créances hypothécaires sont remboursables mensuellement à cinq pour cent?

HONORABLE SENATEUR VAILLANCOURT :

Cinq pour cent ou cinq et demi pour cent.

M. OMER LUSSIER :

Assurées contre les accidents d'infirmité ou de mort?





HONORABLE SENATEUR VAILLANCOURT :

C'est ça.

M. OMER LUSSIER :

Contre le chômage, par exemple?

HONORABLE SENATEUR VAILLANCOURT :

Non, on n'est pas assuré pour ça.

M. OMER LUSSIER :

Quels seraient les moyens de liquider vos affaires, parce que vous avez une très grosse proportion de votre actif dans les prêts hypothécaires?

HONORABLE SENATEUR VAILLANCOURT :

On a déjà étudié ce problème-là, seulement aujourd'hui, avec les rapports que nous avons, et dans toute cette affaire-là, prenez la crise de 1929 à 1939, on l'a passée, et on l'a passée sans effondrement, on a attendu, on n'avait pas la puissance qu'on a aujourd'hui, et nous n'avions pas les rapports et la stabilité.

M. OMER LUSSIER :

Aviez vous la même proportion d'hypothèques?

HONORABLE SENATEUR VAILLANCOURT :

Ah non, dans ce temps-là on avait huit millions de dollars.

M. OMER LUSSIER :

Mais la même proportion?

HONORABLE SENATEUR VAILLANCOURT :

A peu près la même proportion, oui, mais ça, la proportion, même . . . . oui, ah oui. Alors, ce qui est arrivé, c'est qu'on a





pu attendre, c'est que nos gens ne sont pas trop pires encore, j'espère que demain ils seront encore comme ça, on a des cas de caisses, à un moment donné, elles ont été gelées parce que les gens étaient pris de panique, et il n'y avait plus d'argent, seulement on leur disait : "Votre argent est prêté chez votre voisin, Un Tel. Ah, ils sont des bons diables, ils ne payent pas aujourd'hui, mais demain ils vont payer, les terres valent ça, les maisons valent ça, et la crise ne durera pas éternellement, ça va revenir, je n'en n'ai pas absolument besoin, on va attendre." Ils ont attendu.

Le pire cas que nous ayions eu, c'est dans la région de Chicoutimi, et il ne s'est pas perdu un sou. On a attendu, on a fait comprendre aux gens d'attendre, ils ont attendu, et non seulement ça, depuis ce temps-là, ils ont fait de l'argent parce que les maisons ont pris de la valeur, les gens ont changé de place, les maisons ont été revendues à des prix plus élevés.

C'est là l'affaire, voyez-vous, c'est une multiplicité de petits déposants qui s'en viennent chez-nous. Au 31 juin, on va avoir près d'un million de sociétaires - c'est une multiplicité - ce n'est pas comme dans les organisations industrielles ou économiques, où on fait des affaires, quand la crise arrive, c'est des grosses affaires, et puis ça tombe, ça écrase tout; tandis que vous allez prendre \$100 divisés entre 10, ça fait rien que \$10 chacun, chacun est capable de porter son \$10, tandis que \$100, rien qu'un, ça fait pas mal plus dur à porter. C'est pour ça que nous autres on dit : C'est la multiplicité; dans le rapport du mois



de juin, 1955, nous avons 896,000 déposants. Voyez-vous, on ne peut pas changer notre manière de procéder comme vous allez échanger avec une banque, une société de finance, ces choses-là, parce que c'est la grande répartition, c'est là qu'on voit la vraie puissance de la population.

M. OMER LUSSIER :

Limitez-vous les montants de dépôts, par exemple?

HONORABLE SENATEUR VAILLANCOURT :

Ah oui.

M. LUSSIER :

Des dépôts; pas des prêts.

HONORABLE SENATEUR VAILLANCOURT :

Pas besoin de limiter - évidemment, il y a la Caisse Populaire de Lévis, où il y a des affaires de cinq millions de dollars d'actif, les autres vont prendre .... le type qui a \$40,000 ou \$50,000 ne viendra pas déposer son argent à 2½%. Il n'y a pas de gros dépôts.

M. OMER LUSSIER :

C'est ce qui fait votre force.

HONORABLE SENATEUR VAILLANCOURT :

Oui, comme groupement. Maintenant, nous avons un maximum de capital, même les grosses caisses comme Lévis, vous n'avez pas le droit de prendre plus que \$3,000 de capital. Si on permettait n'importe quel capital, à un moment donné un gars qui a beaucoup d'argent, comme à Lévis, on paye 6% d'intérêt sur le capital, ce n'est pas trop pire - si on permettait n'importe quel montant, un bonhomme s'en vient avec sa





femme, ses enfants, avec un \$150,000 à \$200,000, et qu'il dit : "On va changer, vous allez faire telle chose." La Caisse Populaire dit : "On n'est pas capable de faire ça." Il dit : "Faites-le ou je retire mon argent". Une caisse qui arrive à \$7,000,000 ou \$8,000,000, voyez-vous ce que ça fait?

M. OMER LUSSIER :

Un chapitre très intéressant de votre mémoire, c'est quand vous parlez des ventes à tempérament. Vous avez suggéré de régler ces ventes à tempérament. Ça s'est fait durant la guerre.

HONORABLE SENATEUR VAILLANCOURT :

Oui, avec succès; j'y ai contribué.

M. OMER LUSSIER :

Maintenant, vous seriez en faveur de recommander les mêmes mesures dans le moment?

HONORABLE SENATEUR VAILLANCOURT :

Peut-être pas des mesures aussi ....

M. OMER LUSSIER :

Drastiques?

HONORABLE SENATEUR VAILLANCOURT :

On a dit dans ce temps-là que c'était drastique. Ce n'était pas si drastique que ça. On faisait la guerre et c'était nécessaire. Mais après la guerre, quand on a amoindri l'affaire, et qu'on a mis ça à cinquante pour cent en moyenne, moi je ne préconiserais pas celle-là,



l'ordonnance de la guerre, mais celle de deux ou trois ans après la guerre; surtout pour les choses futiles.

Je m'occupe de service social chez-moi, et de St-Vincent de Paul depuis quarante-cinq ans, puis je vois ce qui se passe dans toute la région, pas rien qu'à Lévis, j'ai toute la région à voir, et ces choses-là, c'est effrayant : des chesterfields, la télévision ce n'est pas une question, tout le monde en a, la radio, tout ce que vous voudrez, c'est \$1.00 \$2.00, \$3.00 ou \$4.00 par mois. La télévision est finie, la lampe est brûlée, et on n'a pas le moyen de la renouveler et on doit encore soixante-et-quinze pour cent dessus. C'est ça. On dit : Il faut que je m'amuse. C'est un peu extraordinaire, c'est l'éducation qu'on a. Comme l'exemple que j'ai donné tantôt, si au lieu de dépenser l'argent avant de la gagner, si on le mettait de côté, si on se disait : "J'en aurai un, mais dans un ou deux ans, " avec son \$500, il aurait mis seulement \$480 de côté, avec son intérêt à  $2\frac{1}{2}\%$ , il a \$517. et quelque chose dans son compte de banque, et il va payer son affaire \$500 au lieu de le payer \$635.04 en payant 2% par mois.

Et il y a une autre affaire à part, messieurs, dans l'intérêt des gens qui prêtent dans ces conditions-là - et d'ailleurs ils sont obligés de prêter à des taux élevés, car ils se font coller. Il m'est arrivé un bonhomme de ces grosses corporations il y a quelques mois, me demandant si j'approuverais à Ottawa un bill où on pourrait monter à 3% par mois le taux d'intérêt.

J'ai dit : "Ecoutez un peu, il y a quelques années même, j'avais demandé un et demi." Ils m'ont répondu : "Si vous re-





venez, on va demander un. ' " J'ai dit : Vous prêtez sur la T. V. ? Il dit : "Oui, on prêtait, mais on ne prête plus. - Comment ça? - Il dit : Vous savez, il y a quelques mois ils ont changé les écrans, ils ont mis les écrans qu'ils appellent : les écrans géants. Or, tous ceux qui avaient acheté des télévisions, qui payaient \$3 par mois, ils nous les ont remis, ils ont dit : ' On va en acheter une autre et on va encore payer \$3 par mois, c'est comme un loyer. ' " Ils étaient poignés avec ça, voyez-vous comment ça peut jouer.

M. OMER LUSSIER :

C'est la théorie de la finance en général de favoriser des crédits à la consommation.

HONORABLE SENATEUR VAILLANCOURT :

Oui, à la consommation, mais favoriser un crédit qui sera productif. Un frigidaire, autrefois, on disait : C'est un luxe. Aujourd'hui, ça ne l'est plus. Les maisons n'ont plus de cave, il nous faut une affaire comme ça. Une machine à coudre, ce n'est pas un luxe pour une femme qui veut s'en servir. Un poêle électrique c'est moins dangereux pour le feu qu'un poêle à bois comme autrefois. Mais on est rendu qu'on vend des parts dans la lune; ce n'est pas une folie, malheureusement ç'a été fait. Mais on voit par exemple des gens qui veulent aller en Europe, à un moment donné, ils décident d'aller en Europe, une folie, ils décident d'aller en Europe, on leur prête pour aller en Europe, vous payez ça dans douze mois, vingt-quatre mois, sans savoir si en revenant il aura encore sa situation, sa place; rien du tout.

Un gars part pour s'en aller - à un moment donné un





de ses amis s'en va à la chasse - "Je veux y aller moi aussi". Il va à une compagnie de finance, il va avoir \$300, \$400. Ce sont toutes des affaires comme ça qui sont un peu extraordinaires.

M. OMER LUSSIER :

Les vôtres, vos prêts, ce sont des garanties morales?

HONORABLE SENATEUR VAILLANCOURT :

Des garanties morales d'abord, premièrement, parce que les Caisses Populaires on ne peut pas prendre en garantie une laveuse, une machine à écrire, une machine à coudre, comme la banque peut le faire en vertu de l'article 89. Nous autres, on ne peut pas. Quand on prête sur billet, c'est surtout sur sa garantie morale, et quand un gars est honnête, on sait qu'il est honnête, quand même ça ferait cinq ans, il dit : "Je le dois, je le paye." On a l'expérience de ça depuis cinquante-cinq ans.

Vous savez, la garantie morale, dans ce bas monde, s'il y en avait un peu plus, ça serait meilleur.

THE CHAIRMAN :

Senator, as you can imagine, a commission of this kind must give very considerable thought to the adequacy of the credit facilities available throughout the country, and we are most interested in what you have been telling us. I have not had chance to tell my colleagues that you were kind enough to say before we convened that if we have some supplementary questions, we can write you and you would be kind enough to do your best to answer them.



HONORABLE SENATEUR VAILLANCOURT :

Yes sir.

THE CHAIRMAN :

We are very grateful to you. Thank you very much.

HON. SENATOR VAILLANCOURT :

O. K. Thank you very much. But if you want some more information when you will be sitting in Montreal, we will be ready to go, after you read your brief.

THE CHAIRMAN :

We will adjourn until Wednesday in Montreal, at 10.00 a. m.

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- - - At 3.45 p. m. the commission adjourned.





ROYAL COMMISSION  
ON  
CANADA'S ECONOMIC PROSPECTS

HEARINGS

HELD AT

MONTREAL, QUE.

JANUARY, 18, 1956

VOLUME 19



Montreal, Quebec

The sittings of the Commission in Montreal were opened in the Assembly Room 1, I.C.A.O., 10th Floor, Aviation Building, University and Dorchester Streets, at 10: a.m., Wednesday, January 18th, 1956.

PRESENT:     Mr. W. L. Gordon, Chairman;  
              Mr. Omer Lussier;  
              Mr. Andrew Stewart;  
              Mr. Raymond Gushue;  
              Mr. A. E. Grauer

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APPEARANCES:     Mr. F. G. Ferrabee,  
                    President, Machinery and Equipment  
                    Manufacturers' Association of Canada,  
                    and President of Canadian Ingersoll  
                    Rand.

                    Mr. T. R. McLagan, President,  
                    Canada Steamship Lines.

                    Major-General G. B. Howard,  
                    Executive Vice-President and  
                    General Manager, Canadian Industrial  
                    Preparedness Association;  
                    Mr. I. F. McRae, Vice-President,  
                    General Electric and President,  
                    Canadian Industrial Preparedness  
                    Association.

                    Mr. R. M. Fowler, President,  
                    Mr. F. L. Mitchell, Management  
                    Association, Director,  
                    Mr. W. E. A. Pepler, Woods Manager  
                    Forest Engineers.  
                    Mr. J. M. Smith, Economist.  
                    Dr. R. L. Theismeyer, Director of  
                    Research Institute,  
                    Canadian Pulp and Paper Association.

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THE CHAIRMAN: Gentlemen, shall we come to order? To begin with, I would like to say how grateful we are to the Secretary-General of the International Civil Aviation Authority for letting us meet in this auditorium.

I would also like to explain that the Mayor of Montreal, His Worship Mr. Drapeau, had intended to present the brief on behalf of the City at this first session. He was called to Quebec suddenly and had to be there today and has therefore asked that the city's brief should be presented when we return to Montreal on February 20th.

In the meantime we are very grateful to the Machinery and Equipment Manufacturers' Association for being willing to start the proceedings here on rather short notice. Now, Mr. Ferrabee, if you would be kind enough to just start in. We will mark your submission as Exhibit 107.

MR. FERRABEE: Mr. Chairman and Commissioners, in the absence of a more worthy personage I think it is fitting that we should welcome <sup>you</sup> to our sitting here, due to the change in arrangements. I am sure had the Mayor been here he would have expressed our pleasure at your coming here and our anticipation that the results of your wearying procedure, I am sure, will be of great benefit to the country when you conclude your work.

Montreal I think you will find at the present time, you may notice that the pace is increasing a bit in Montreal. There are a lot of people that are doing planning and doing things at the present time.





And you have got to be particularly careful in crossing Dorchester Street out here because the pace is very heavy now.

THE CHAIRMAN: I thought you were talking about Sherbrooke Street at 5:00 P.M.

MR. FERRABEE: This organization, gentlemen, is probably the youngest that will appear before you. Although those in the machinery and equipment business are known to each other across the country and have been for years, there has never been any formal organization until just recently when this association obtained a charter.

As you may recognize, machinery and equipment is a grass roots industry. It grows, you might say, from the four corners, there is always the handyman in the farming district and that used to be the blacksmith, now he is the garage man, and from being the handyman and making things for people, the man finally himself is in the engineering business, and that is about the background of our type of industry in the country. Some of course, have grown to fairly large proportions but it is a widely spread industry and we have a very simple story. I think our brief that has been presented to you, or which you had in advance is a short and simple one and we welcome this opportunity of making some comments on this short story that we have to tell. I have before me a summary of the brief and with your permission I will just read through this informally.

THE CHAIRMAN: Yes.

MR. FERRABEE: A description of our industry



is that there are approximately 325 firms (from coast-to-coast in Canada) that are principally engaged in the production of industrial machinery. That is, that more than half of their production is industrial machinery. In addition, of course, there are a large number of firms in other industries, such as shipbuilding, iron castings and electrical apparatus and supplies, that incidentally in that work also produce industrial machinery, but it is not the most important item of their production.

On the basis of figures taken from publications of the Dominion Bureau of Statistics for the year 1953, the value of output of all products and repair work in the industrial machinery group plus the value of the machinery which is manufactured by those as I mentioned before outside of the industry proper, was in excess of \$286 million. On this same basis, the direct employment in the industry would be some 29,000 persons, the payroll would be just short of \$1 billion annually.

Of the iron and steel products group of industries, industrial machinery is only exceeded in employment and value of output by the basic iron and steel processors themselves.

Ownership of the production facilities in this industry is widely held, with the 33 largest firms in the industry accounting for less than 55 per cent of the output.

Although American and British interests are important, ownership and control of companies,





throughout the industry, is predominantly Canadian.

Between the years 1949 and 1954, Canada's resource, manufacturing and service industries used an average of \$531 million worth of industrial machinery each year. And this year just past we know that the figure will exceed that by perhaps 100 or more million dollars. The domestic industrial machinery industry supplied about 35 per cent of this total and the remaining 65 per cent was imported into the country.

About 87 per cent of the industrial machinery imported into Canada in these years originated in the United States, 9 per cent in the United Kingdom and the remainder in Western Germany and other foreign countries.

During the years 1949 to 1954, 13 per cent of our Canadian production of industrial machinery was exported, principally to the United States, Latin America and the Commonwealth countries and to other countries. The importance of each of these being in the order in which I read them. In other words, most of it went to the United States. However, this was mainly occasioned by special circumstances in these years such as inter-company arrangements and short-term defence contracts. It is not expected, therefore, that the Canadian manufacturers of industrial machinery can count on any large continuing market for their products in the United States.

Regarding the general economy and the position of the industry in it, this Association is extremely optimistic. We think the probable pattern of economic growth in Canada during the next twenty-five years will be the greatest in our history. In other



words, we feel we are now entering the greatest era of economic development.

We feel however that the real measure of Canada's economic potential can only be reached through the implementation of a bold and vigorous immigration programme. In other words, as we look at it, the need continually crops up for more people.

Even at the present time there are signs indicating that a shortage of labour can develop in Canada, in the near future, if the current rate of growth in the economy is maintained. That is, if the economy goes on roughly at its present pace we are going to be short of people. And when I said labour, I don't mean labour in the old sense of the word of picks and shovels. In this country today with our higher development that is coming, we need people of skills, people of technical training, people with college educations and degrees.

In looking at the more distant future, the Association believes that among the many benefits that will result from a larger population in Canada perhaps the most important is associated with our growing industrialization. And perhaps we are too close to the scene to appreciate the full significance of what has been going on economically in the country in the past 15 years. Although this period has witnessed a rapid expansion of our primary industries, the real indication of our approaching economic maturity is shown in the growth of our secondary or manufacturing industries.

We should realize that it took the nation





twenty-nine years between 1910 and 1939 to increase employment in our manufacturing industries by 30 per cent. In something near one-half this time, between 1939 and 1954, direct employment in our manufacturing industries increased by 95 per cent. This is a phenomenal rate of growth and we believe it marks the turning point of Canada from our primary economy that we have been used to in Canada to a complex industrialized community.

The growing output of goods that has resulted from this expansion of our manufacturing industries is an effective expression of our national pride and satisfaction in using more and more goods of Canadian origin. It also gives us the security of having such items available to us.

Yet, we feel, a larger population is needed in Canada to consolidate these gains of the past and to provide a firm foundation for the expansion of manufacturing in the future.

The Association, therefore, feels that every effort should be made to raise the present level of immigration to Canada of good potential citizens with the skills necessary to satisfy the growing needs of our industrial country.

A word about the prospective growth of the Canadian industrial machinery industry, with which, of course, we are particularly concerned. The certain growth in the internal and external demand, during the next twenty-five years for what we have here in Canada, will carry with it a growing need for the machines and





tools to meet these demands. Conservatively, we would estimate the market for industrial machinery products in Canada in 1980 at about  $3\frac{1}{2}$  to 4 times the recent annual rate of approximately \$600 million; but there is uncertainty, at present, that the domestic industrial machinery industry can follow a comparable rate of growth. We will need the machinery, the question is whether our domestic production can hold on to its share or increase it.

However, with effective support through Canada's economic and fiscal policies, we believe this industry can not only equal but exceed this rate of growth and provide the manufacturing side of this country's economy with one of its major areas of expansion. We feel that the present one-third share of the domestic machinery market is not a true reflection of the capabilities of the Canadian industrial machinery industry.

The Association submits that Canadian-built machines can, and should, represent the largest part of the machinery used in the country each year. On this basis, it could be conservatively estimated that the output of industrial machinery in Canada could be as much as 5 to 6 times the present rate, by 1980. This would mean that a two-thirds share of the expected market in 1980, would increase the output of the domestic industry by nearly 7 times. These rates of growth, in production, are all the more remarkable when it is considered that Canada's gross national product is expected, we understand, is estimated to increase approximately three times in the same period.



I go into some detail here, gentlemen, regarding the tariff which I believe might be as complex and I believe could be left to the firm which is investigating our activities, which has been collecting details on this point. Suffice it to say that in the face of greatly increased competition from off shore and from this continent, that there are points about the tariff which have served to impede the growth of our local manufacturing.

The Association recognizes and appreciates in a general way the motives that led Canada to become an active supporter of the General Agreement on Tariffs and Trade. We have all been concerned with the economic recovery of Europe after the last war and we have many who have shared the belief or we do share the belief that a reduction in trade barriers would hasten the recovery of this war-torn area.

However, in our observation those reductions in the tariff and the progressive removal of trade restrictions under GATT have not resulted in a significant shift to European sources of supply for the manufactured goods imported into Canada. We feel perhaps in this respect, GATT has served only to increase the overall vulnerability of Canadian manufacturing industries to import competition.

The United States is firmly established as Canada's main source of supply for imported manufactures. In the case of machinery products, over 87 per cent of our import requirements have been filled from the United States since before the last War.





But, despite increasing import competition in the domestic machinery market, as a general premise, the Association does not necessarily advocate the adoption of higher tariffs nor does it refute Canadian membership in GATT. The Association believes that there may well be sufficient latitude within the framework of GATT, the Customs Act and the Customs Tariff to provide the domestic machinery industry with the minimum amount of protection necessary to assure an adequate rate of growth in the future.

For instance, the Canadian manufacturer of industrial machinery considers the methods employed by Canadian Customs authorities, in determining values for duty of imported machinery, to be of primary importance to the industry.

The Association is very much concerned with the number of cases which have occurred in which foreign manufacturers of industrial machinery have sold their products in Canada at prices near, and in some cases, below their costs of production. There are various reasons for them doing this, and we know that within the Customs Act there are means of dealing with such cases.

The Association would welcome additions to the staff of the Department of National Revenue to assure that the requirements of the Customs Act are strictly adhered to and, whenever necessary, to recommend the application of penalties as prescribed under Section 6 of the Customs Act.

Another facet of Canadian customs legislation that bears strongly on the domestic machinery industry



is the "class or kind made in Canada" clauses of the tariff schedule.

The basic problem in this regard appears to lie in the difficulty of reaching a definition of "class or kind" that is administratively workable. There is, often, we notice a tendency to confuse "type or size" with "class or kind". There are examples where a Canadian manufacturer producing a wide variety of machines might find that a marginal type or size may be considered to be of a class or kind not made in Canada. This being the fact, if he wants to stay in that type of business, is forcing him to make every type and size and species that can be obtained anywhere in the world and he is not encouraged to do this with the size of the Canadian market.

The Association would encourage a more liberal interpretation in classifying products as "a class or kind made in Canada" than has occurred in the recent past. It is perhaps more important to the long-term development of the industry and the Canadian economy in general that the productive abilities and resources of the domestic industrial machinery industry be given primary consideration rather than whether a particular machine has been manufactured in Canada previously or not, or whether an arbitrary percentage of the market can, in fact, be supplied.

In addition, the Association would recommend a constant review of the special classifications in the tariff schedule that offer preferential treatment to some of our extractive industries. We submit that





the interests of the domestic industrial machinery industry and other capital equipment manufacturing industries in Canada should be uppermost in any future consideration of preferential customs tariff treatment.

On the ultimate effect of a large, well-established industrial machinery industry on the Canadian economy we have this to say:

The benefits to the economy of a well-established machinery industry are many. Since the industry employs a highly-skilled working force, growth in production and employment in the industry will tend to upgrade the average level of skills of the Canadian labour force. The certain increase in our population and the growth of automation and the general use of more complicated equipment for production will require more highly-skilled people in Canada not only to design and make such equipment but also to maintain it in operation. The machinery industry is ideally suited to provide such necessary training.

These factors are important not only from considerations of national pride but also from the necessity of maintaining a well-trained labour force to meet any emergency growing out of the unstable international situation. The contributions that the Canadian economy and the Canadian machinery industry made during the last world war are only a small indication of the demands that will be placed on both in the event of another outbreak of hostilities.

The Canadian economy has been traditionally subject to unrecoverable losses as a result of seasonal





fluctuations in employment in many of our industries. The factors affecting the production of machinery are of such a nature that employment is not seasonal. Consequently, the Association feels that an expanding machinery industry in Canada would assist the nation in its efforts to reduce the impact on our economy of the social losses caused by periodic under-employment of our human resources.

Canada is also constantly threatened by foreign exchange crises through imbalances in her foreign trade. The relatively large quantity of manufactured goods, purchased from external sources, is one of the contributing causes to these exchange difficulties. Machinery products are among the most valuable groups of commodities imported into Canada annually. This fact encourages the Association to contend that an increasing output of industrial machinery in Canada will go a long way in assisting this country to obtain a more favourable balance of trade.

The fact that Canadians are not large overseas investors has limited the ability of the domestic machinery industry to establish firm export markets for its products. However, a growing industry in Canada will allow the Canadian machinery producer to devote an increasing part of his output to foreign demand. A strong domestic industry will establish confidence among world machinery users in the fact that Canada is well able to meet many of their requirements for specialized and standard types of industrial machinery.

The Association would welcome any steps



taken by government or private authorities to establish an institution in Canada to provide long-term financing for overseas capital development programmes, particularly in the underdeveloped areas of the world. Institutions of this nature working in conjunction with international development schemes such as the Colombo Plan are in our opinion perhaps the most effective positive programmes that we can use in stemming the growing Communist influence particularly amongst the impoverished nations.

So we have, gentlemen, here, an industry which is required to provide the tools for Canada's development. In these few remarks I have shown that it needs people to do it. In our opinion it needs a benevolent atmosphere in which to expand. We believe it is equipped and able to supply a greater percentage of the domestic requirements and we believe it would be prudent planning to see that Canada can provide a higher proportion of the tools that it needs for the coming development.

THE CHAIRMAN: Thank you very much, Mr. Ferrabee. Mr. Gushue, would you like to ask any questions?

MR. GUSHUE: I wonder, Mr. Ferrabee, if you would mind enlarging a little on your reference to the class or kind clauses in the Canadian tariff, as I am not quite familiar with that, just how that is applied -- class or kind of goods made in Canada.

MR. FERRABEE: At the present time it is largely a matter of the customs appraisers' judgment. An appeal might be made, for instance, to take an





exaggerated case, that a bicycle which is made in Canada, let us say, is subject to  $22\frac{1}{2}$  percent duty, but a green bicycle coming from somewhere else is not made in Canada because the one that is coming from somewhere else is green, therefore, it could be of a class or kind not made here, if you want to make those kind of distinctions, and particularly in the machinery industry you can appreciate the difficulty with the variety of machines there are in fairly applying that clause on the machinery that because it is, or indeed of showing this thing is or is not made in Canada, when both types of machines might be used for the same purpose. And it makes a tremendous difference, of course, in the cost to the importer or the cost to the user whether the duty is  $22\frac{1}{2}$  percent or 17 percent. It is a very ordinary case.

MR. GUSHUE: The duty is higher if the goods are of a class or kind made in Canada.

MR. FERRABEE: Yes.

MR. GUSHUE: That would apply also to your subsequent reference to the preferential treatment made to extractive industries, if their machinery were within that classification there would still be a difference in the duty, I take it, would there?

MR. FERRABEE: Well, the end use items to which we are referring for the extractive industry, for instance Tariff Item 848 gives a privilege to somebody to bring in anything they need, say, in the oil industry, in producing oil, or the petroleum industry, or in some other industry, sometimes at no duty whatsoever. In other words, the tariff is destroyed in the case of one



particular industry which at the time somebody thought should be favoured by not having to pay duty on any of their needs to get into business.

MR. GUSHUE: That would take them outside the class or kind clauses, then?

MR. FERRABEE: That would wipe out all considerations, you might say.

MR. GRAUER: Your reference to immigrants on page 3, Mr. Ferrabee, are you very optimistic about getting the fairly large number of skilled immigrants that you refer to there under present world conditions?

MR. FERRABEE: Well, I don't know what you mean by optimistic, Mr. Grauer. I certainly think there ought to be the relatively small number of people that we require in this country of the type that we need that would be glad to come here. Now, how that would be done I frankly have not --

MR. GRAUER: Well, that is based upon an analysis of internal needs and not external conditions then, is it?

MR. FERRABEE: Yes.

MR. GRAUER: Does the industry have any programme for training people within Canada?

MR. FERRABEE: Yes, very much so, also recruiting them. I mean the industry has recruited engineers and skilled people in their own way, I mean privately. There are apprentice plans, there are training plans. The industry contributes to higher education. We have just had to do it to survive even up to the present time.





MR. GRAUER: Yes. That still does not fill your requirements for skilled people?

MR. FERRABEE: No.

MR. GRAUER: On page 5 your forecast of the future possibilities for the industries, which are quite striking; does that forecast depend upon getting trained immigrants, skilled immigrants?

MR. FERRABEE: I would think to a considerable extent, yes, sir. In other words, the thing we need is some stability which I mentioned as a benevolent atmosphere. If we could be sure of the future and a larger share of this market, then there would be the matter of making investments for plant, simultaneously getting people to man the plants. The result is that has to go together. We won't have the plants until we can see the future of getting a bigger share of our market. When we do get the plants then the people will be needed.

MR. GRAUER: The forecast depends then upon the expansion of the tariff and some inflow of skilled immigrants, is that right?

MR. FERRABEE: Yes, well, we are going to need -- let me put it this way, if we don't have more people, the developments that will require this machinery probably won't take place. I don't think it is just the machinery industry that needs people, in other words.

MR. GRAUER: What I was really wondering about, the whole western world at least, if not the whole world, seems to be similarly optimistic about the future,





similar to Canada and the United States, and under those conditions I wondered if your forecast about the need for skilled immigrants was based upon an external analysis as well as an internal one, but apparently it is not, and therefore you have to take your luck in the international labour markets, so to speak.

MR. FERRABEE: Well, it is the population or the rate of growth of course, that is the success secret. Obviously if we have fewer people in Canada every year it is not going to grow the way we think it is.

MR. GRAUER: Let me put it this way, if there were not the necessary flow of skilled immigrants available, do you think there is a chance of your training plan plus an extension of it perhaps involving the universities, filling the requirements internally?

MR. FERRABEE: No.

MR. GRAUER: I am thinking of this twenty-five year period.

MR. FERRABEE: No, I don't believe so. I think with the kind of growth that is sticking out on all sides of us that we are going to have more people.

MR. GRAUER: Yes, this is just to get your ideas.

MR. FERRABEE: Yes. If I could just mention some figures that I noted the other day that probably you did too, the Russians claim they are going to turn out 60,000 university graduated, technical engineering people a year. The United States now turns out 22,000. United Kingdom 3,000 and Canada less than 2,000. And yet the development here now for those kind of people is, I would



say, approaching the need of United States almost at the moment.

MR. GRAUER: And it is quite obvious that you would welcome a stepped up training programme involving technical schools and universities?

MR. FERRABEE: Yes.

MR. GRAUER: Figures for manufacturing industries on page 4, I think they are, just what scope would that include? Paper? -- I suppose it would.

MR. FERRABEE: Where is this?

MR. GRAUER: Page 4, do you say something there --

MR. FERRABEE: Oh, the manufacturing?

MR. GRAUER: Yes.

MR. FERRABEE: Yes, it would. That is manufacturing in general, which would include paper.

MR. GRAUER: Yes, thank you.

MR. GUSHUE: I wonder if I might ask another question, Mr. Ferrabee? You refer to the fact that, I am not sure whether it is the average duty or at any rate the collections on imported machinery are about 10 percent. Is there a wide range there? Does that leave a large number of free items? What would be the high and low? I take it the low would be free. What would be the high?

MR. FERRABEE:  $22\frac{1}{2}$  percent would be the high and the low would be zero, as you say.

MR. GUSHUE: I was also interested in your reference to the motives of Canada in entering the GATT agreements as being the economic recovery of





Europe. I am not quite sure that they were the motives.

MR. FERRABEE: That was one of them as we understand it.

MR. GUSHUE: The GATT agreements were, of course, I believe, one angle of the agreements with the ultimate purpose as I understand, to make world trade freer in the hope that it would bring about the revival of some countries, but also that it would lead to a solution of questions of exchange and so on. I am not sure that has developed but I think it was on a rather wider basis than the one referred to here.

MR. FERRABEE: If I gave the impression that that was the only objective, I didn't intend to. But from the viewpoint of our industry we knew that Europe needed to recover and with our type of products for their needs.

MR. GUSHUE: I think they were really hoping to make a brave new world.

MR. STEWART: Just one question, Mr. Ferrabee. Is your industry, as it is defined, increasing in variety because of increasing specialization in manufacturing, that is the functions are ceasing to be of a more general manufacturing form and becoming specialized activities which then fall within your industrial classification, and if so is that process likely to go on?

MR. FERRABEE: I am afraid I don't understand you, Mr. Stewart.

MR. STEWART: Well, you have referred to the fact that other firms produce some of these



products but they are a minor part. Now, is there a tendency for the industrial machinery to be pulling out from that type of form and to become a separate form of specialized production?

MR. FERRABEE: Well, some of them, I think, are in that category, they might. I am calling attention there, however, to the possibility of a shipyard in the business of making ships, but they might, because of the industrial facilities they have, use the same facilities for producing certain types of industrial machinery. In that case a portion of their business is just as much a part of industrial machinery and equipment as though they were a separate company, you see.

MR. STEWART: Yes, but would you expect in the long run that more of that function would be pulled off into specialized forms?

MR. FERRABEE: Well, I don't think so. It is a mottled pattern the way machinery is made now, and it has grown out of various sources, let us say. I mean a person might have a foundry and just make castings for 40 years and all of a sudden they find they can just do a little work on that casting and they have a pump, so they are in the pump business. And on the other hand somebody else may find they are building a locomotive and they don't have any locomotives to build this month and they have the facilities, so they look for something to make with their facilities. I think the pattern would remain about the same.

THE CHAIRMAN: Thank you very much, Mr. Ferrabee. I read your brief through the other day,





the complete one, and I must say that I think your point of view was very well put forward, very clear, and I think it will be most helpful to us. We are most grateful to you.

MR. FERRABEE: We certainly welcome this opportunity and I thank you for your attention.

THE CHAIRMAN: Thank you. I think we will take a five minute break before proceeding with the next submission.

--- Recess

--- After recess

THE CHAIRMAN: The next item is a submission by Mr. McLagan, the President of Canada Steamship Lines, Mr. McLagan.

MR. McLAGAN: Mr. Chairman, we in the inland water transport industry and the ship building industry have just <sup>come through</sup> some very strenuous sessions with the Royal Commission on Coasting Trade which lasted six months and we are not as well prepared to talk to you as we only put together our submission late last night and I apologize for not having sufficient copies but I will deliver them this afternoon. We appreciate very much the opportunity to appear before the Commission to discuss what we think is a very important matter in the affairs of Canada and the future of Canada. I may say that I have adhered strictly to the terms of your letter of September 21st, 1955, in saying what we are about to say, and we also ask your permission to say and file something about the shipbuilding industry which you said that we could do. I may say that the inland





water freight with which we are concerned comprises some 25 companies and involves 221 ships and about 1,160,000 tons of shipping.

I say that these companies are all fiercely competitive and their progressiveness can be judged by the fact that since 1948 they have built some 26 new ships with a tonnage of about 320,000 at a cost of about sixty million dollars. It is estimated that Canadian lake shipping operators have capital involved in ships and shore installations of more than two hundred million.

These vessels are engaged in carrying ore, coal, grain, pulpwood, package freight and miscellaneous bulk cargoes. They may be said to be specialized in that their deadweights are relatively great for their shallow draught. For instance, the limiting draught now in the Welland Canal is 23 feet, 6 inches. In the new seaway it is proposed to be 25 feet 6 inches. These ships are built with many hatches and with their engines aft in order that they can be loaded and unloaded very quickly, and the loading and unloading shore installations have been built to suit them. It must be realized that these ships must move the vast quantities previously indicated in a short period of seven and a half months, and that within this short period there are periodic demands for immediate movements greatly in excess of the average. Great concentrations of ships are necessary in certain months of the year, for instance to move the grain crop and we are filing graphs to show the irregular movements of the grain crop, and how, when it does move,



concentrations of vessels are required very quickly. The ore must be moved in  $6\frac{1}{2}$  months on account of the freezing in the spring and the fall, and the coal in about  $7\frac{1}{2}$ .

The point I am making is that if these ships of the Great Lakes are not ready and available to perform their concentrated effort, then the effect will soon be felt in the steel industry and dependent businesses, and by the farming community, through lack of exports.

The whole Great Lakes fleet has been built up to give a great concentrated movement and we doubt if the efficiency of the handling of bulk cargoes or package freight can be equalled anywhere in the world. Although we are dealing with ships, I emphasize that these ships are a definite part of the industrial machine of North America.

Now I come to the probable developments in inland water transportation. These are affected by:

- (i) The Growth of Canada -- that is, the steel industries and other manufacturing industries and agriculture.
- (ii) Developments of other forms of transportation -- and other forms of transportation may be developed which may affect the inland waterways.
- (iii) The advent of the new St. Lawrence Seaway.  
The bulk products, as I have indicated, constitute by far the biggest percentage of our own business, about 92 percent of the total tonnage carried.  
The remainder is package freight which





travels between Canadian ports and about 15 percent of that is import and export.

Also in addition to our own business, the total of all bulk products is about the same in proportion as I have indicated.

And, as I say, we are bound up with the future growth of Canada, particularly in regards to the steel industry and agricultural production.

Now, I am attaching exhibits of the tonnage passing through the Welland Canal and the St. Lawrence Canal because it has some effect on what I am going to say about the Seaway.

I should say, before I go further, that the magnitude of the trade on the Great Lakes is great. For instance, the greatest tonnage passes through the Soo Canals, amounting to almost 130 million tons, and that is more tonnage, in  $8\frac{1}{2}$  months, than passes through the Suez and Panama Canals in 12 months. That would give a comparison of its magnitude.

Through the Welland Canal passes about 19 million tons. It has grown from  $7\frac{1}{2}$  since 1928 and through the lower St. Lawrence Canals passes about 10 million tons, which has grown -- not nearly so fast, which is natural -- from  $8\frac{1}{2}$  million tons since 1928.

You will therefore observe that the growth through the Welland Canal is greater than the latter.

Your Commission is understandably interested in the future growth of Canada. Therefore, I do not believe that these figures I have mentioned give much indication of the future because of the removal of the



restrictive nature of the St. Lawrence Canals and replacement by the Seaway.

The present St. Lawrence Canals restrict the size of ships to those carrying about 3,000 tons of cargo and drawing only 14 feet of water, whereas the new Seaway will permit big vessels of the Upper Lake type, say 20,000 tons, to come to Montreal or the Lower St. Lawrence ports and will also permit large ocean going vessels to pass Montreal and travel to the Upper Lakes.

Now, I am unable to forecast the Westbound tonnages of the future, particularly the tonnages that will be carried by ships coming from overseas ports to ports on the Great Lakes. I do not know of anybody that can.

It is quite evident that there will be a great increase in the tonnage of ore being shipped now from Seven Islands to the Great Lakes ports. The tonnage last year, which was the first year, was about  $1\frac{1}{2}$  million and this year it is forecast to be about 2 million. This tonnage must be transhipped at Contrecoeur, a port just below Montreal, into small canallers and consequently, the capacity of the canal fleet is quite limited. After the Seaway is opened, some authorities forecast that additional tonnages varying from 10 to 20 million tons of ore will pass through the new Seaway.

At this point, I should emphasize and call your attention to the probable tolls which may be levied on tonnage passing through the Seaway. It is something we do not know anything about but the magnitude of these tolls may affect the competitive price of the ore and the result may be that much of it may be forced around through





the Atlantic seaboard, where most of it is now going.

I am speaking, of course, of that proportion of the ore which is destined for inland points and must be carried by rail to these inland points from the shipside.

Those in charge of the ore developments can, naturally, give a more authoritative opinion than I can, of the future quantities and of the effect of tolls on prices.

As regards general freight from overseas being shipped to Great Lakes ports I personally am of the opinion that most of it will go to American ports. I would think this is a reasonable assumption based on:

- (i) The large population of the United States, and,
- (ii) The fact that most of the small ocean going ships now going through the restrictive nature of the St. Lawrence Canals are going to the United States.

As regards eastbound tonnages, I have already mentioned the fact that ore in great quantity is passing down through Sault Ste Marie from Lake Superior. It also seems possible in the future that coal may be brought to Montreal in large vessels from the Upper Lakes to compete with that now coming from the Maritime provinces. I would think that is a possibility but here again, tolls and government policies may have some influence on this movement.

It seems certain that some grain may be shipped from U.S. or Canadian Upper Lakes ports in ocean going ships direct to overseas ports.

Currently at this present time, it does not seem profitable for ocean going ships to go to the head





of the lakes empty for grain. This is because of the very high rates now existing on the oceans or being employed by ocean going ships. However, it seems certain that some ocean going ships, taking miscellaneous cargoes to the Upper Lakes, either to the U.S.A. or Canada, will load grain directly for overseas destinations. I may say that that is a distinct possibility.

Turning now to the cost of transportation, as regards the effect of the Seaway on cost of water transportation, I have the following to say:

I believe that the cost of carrying grain from the head of the lakes to Montreal will be reduced considerably although there are certain forces which will tend to negate some of these savings and which I will draw to your attention in a few minutes.

The reduction will take place because large ships of 15,000 to 23,000 tons will be able to carry the grain to Montreal or Lower St. Lawrence ports instead of having to transfer it to ships of 3,000 tons at what we call the transfer points of Kingston, Prescott and Port Colborne, etcetera. The large vessels will naturally carry it cheaper and the transfer charges will be saved. As to the magnitude of the saving, I may say that many speeches have been made by those in authority in the Government about what it will be. I personally do not care to comment specifically how much these savings will be per ton or per bushel.

Again, I point out that about 40 percent of the grain coming to Montreal in the navigation season is carried by rail. Depending upon future arrangements which



I will speak about, it seems probable that this will become a water movement.

It seems certain that the cost of carrying ore from Seven Islands to Upper Lake ports will be reduced for exactly the same reason as mentioned for grain coming eastbound, and I am confident that these savings will be passed on to the consumer, and I say this because in the Royal Commission on the Coastal Trade there were great representations made that these would be pocketed by the shipping companies.

I say that they will be passed on to the consumer, because in the first place we have very severe competition for business on the Great Lakes. There are no rate fixing conferences on the Great Lakes, that I know of, such as we are told exist in Ocean routes.

Secondly, as far as grain is concerned, the shipping companies must always make the shipment of grain via the St. Lawrence as attractive as possible because they are in competition with Fort Churchill and Vancouver.

As regards forces tending toward increasing costs, I have the following to say which I think is important and I have mentioned these factors which tend to negate the probable savings which will come about by the Seaway. I think that they are very important indeed.

1. There are the tolls which I have already spoken about. Hansard contains reference to them. The amounts mentioned vary from 35 to 50 cents per ton. The importance of this can be seen when we fight now for anything over five cents a ton. This will be a considerable burden and may have a profound effect on inland water





transportation.

We do not know also on what basis they will be levied. Will they be levied on the cargo? Will they be levied on an empty ship? Will they be levied on the ship's tonnage and if so, what tonnage? There are many different ways of taking a ship's tonnage. Will they be levied by a special formula? Will Canadian or American ships pay the same amount as do the foreign ships? It would seem wrong, if after spending our money, that our own ships would be based on the same basis as foreign ships, for reasons which I will elaborate.

Secondly, in order to reduce the cost of grain to the full potention offered by the Seaway, it will be necessary to have the same rapid despatch at Montreal or St. Lawrence ports as now exist at the transfer points which I have mentioned. At the present time, there are no facilities for unloading large Upper Lake ships at Montreal but the Government now has this under consideration and there was an announcement in the Gazette this morning; whether or not these facilities will be adequate is another matter.

The importance of this matter can be realized when you take note of the loss of time being experienced now at Montreal with the small Canallers. For example, in October and November and December of 1954 -- we have not got the 1955 figures yet -- the Canallers of our company -- and I speak of our own company alone because those are the figures at my disposal, I have not the figures of the industry -- spent 41 percent of their operating time in those months waiting to unload their cargoes of grain at Montreal. I point out to you that demurrage charges are



not paid by grain shippers and the loss, or increase in cost of carrying the grain, is borne by the shipping companies.

It will not be possible therefore in the future to operate our big Upper Lakes of 20,000 odd tons, in such a manner, especially since it will not be possible to have them lie around in the harbour waiting to unload as is the case with a small Canaller. Large Upper Lakers, if they have to wait at Montreal, will have to go down the river and anchor and you will appreciate the effect on the cost of transportation by such a course.

Thirdly, the question of storage of grain after the Seaway is opened is an important matter.

Briefly, the storage capacity at the transfer points of Prescott, Kingston, Port Colborne and partly Sarnia, will become redundant. By that I mean that if the maximum savings are to be realized in the carriage of grain, it will not be transhipped at these points. At present, these points provide about 20 million bushels of storage. If this becomes redundant, we ask ourselves where will the grain go? Our belief is that this storage must be replaced at Montreal or St. Lawrence ports. In the dispatch in the Gazette this morning it did not contemplate there such a large storage. I do not wish to take up your time further with this important matter, but I am filing, for your information, a complete report on the problem which is the collective work of the shipping industry and endorsed by the ocean shipping companies who have Montreal as their terminus. And if the problem is not solved we feel sure it will have an adverse effect on future costs of grain carriage.





Delays in the Welland Canal are now most serious and we forecast that they will increase with the forecasted increase in traffic.

We remind you that the Welland Canal is an important, probably the most important, part of the Seaway. It lifts great ships of 20,000 tons over the Niagara escarpment. The time of passage of ships has increased some 50 percent since 1935. To be specific, it has increased for all vessels from 7.5 hours to 11.2 hours. In the year 1955, for instance, our own ships lost 83 ship days just waiting to enter the Welland Canal.

In the exhibit which we have supplied, the tonnages passing through the canal are shown, and as I have said, some 19 million tons are now going through. Some predict that these tonnages will increase to 50 million. We predict that there will be a vast increase in the delays of shipping through that important artery.

We remind you that these delays are more costly to the Canadians than to others because the Canadians have the most valuable ships and the most valuable cargoes.

There are some who argue that the delays will be offset by the fact that the small Canallers will disappear. We do not expect them all to disappear. Their place will be taken by more ocean going ships whose crews are not familiar with the technique of canalling.

There are single locks at either end of the canal but twin locks in the interior. This is a very complicated system and I am filing a separate statement of the working of this system which will give you a clear idea of the problems involved.





Now, delays in the canal have a serious effect on the cost of transportation. The season of navigation is short and everything in the bulk movement of Canada's inland trade depends on speed. Anything that reduces the speed increases the cost.

For instance, some of our ships have taken as much as 22 hours to pass through the canal which is about 27 miles in length and the average is about 12 hours at the present time.

I have taken some time to bring to your attention these forces which will negate some of the forecasted savings. I think it is very important for you to take notice of them when considering the future of our country.

In your letter you ask us to comment upon some of the important problems with which our industry is faced and of ways and means with which these problems can be dealt.

The main problem is concerned with the British Commonwealth Merchant Shipping Agreement which was signed on December 10th, 1931. This agreement permits ships of the British Commonwealth to participate in the coastal trade of Canada. I wish to make it clear that I am not dealing with the carriage of goods from overseas ports to Canadian ports, wherever they may be, but only with the coastal trade between one Canadian port and another Canadian port.

It should be realized that although a Canadian ship is on the Canadian Registry, it is still a British ship. Because it is on Canadian registry, it



only has the same privileges as other British ships in our own coastal trade. As a result, U.K. vessels, which are by far of course, the most numerous in the Commonwealth, constitute a threat to the existence of ships of Canadian registry because there is a great disparity between the wages paid in Canada and the U.K.

For instance, an ordinary sailor in Canada receives a basic wage of \$190 per month and a U.K. man receives only \$69 per month. We attach the scale of wages of various crew members in both countries for your information.

The cost of repairs and supplies is also lower for the same reason. The cost of building ships in the U.K. is very much less than in Canada. We estimate that it costs about 50 percent more to build a ship in Canada than in the U.K. The reason again is on account of wages. Our shipyard wages average about \$1.50 per hour and the U.K. wages are said to be about 60 cents per hour. Consequently, depreciation, interest and insurance charges are much lower for the U.K. ship. Therefore, the U.K. vessel can operate much cheaper than can the Canadian.

Up to now, the economic effect on our Canadian inland waters has not been great due to the restrictive nature of the small St. Lawrence Canals. With the advent of the Seaway, however, large British ships will be able to travel up to the Great Lakes and fully participate in the inland trade. We do not think that this is fair competition and we know of no other of our secondary industries which have to operate under such conditions.





In the U.S.A., only U.S. built, owned and operated ships can participate in the coastal trade of the U.S.A. Due to the international aspect of our bulk trade, U.S. vessels can compete with us say in carrying ore or coal from U.S. ports to Canadian, or vice versa, but we cannot retaliate by competing in their ore and coal trade because it will be violating their coastal laws.

Other nations have anti cabotage regulation. One of them is Australia and even Canada has anti cabotage regulations in air traffic but Canada's coastal shipping seems to have few friends.

The bulk traffic, as I said, is of tremendous importance to the Canadian economy. As I have pointed out it lasts only  $8\frac{1}{2}$  months and due to freezing conditions, ore and coal must be carried in  $7\frac{1}{2}$  months. Again grain must be carried quickly. 50 percent of it is carried in about four months and never regularly in the same month. For instance, this year some 60 million bushels were carried between September 1st and December 15th and 25 million from December 1st to December 15th. It requires a great concentration of ships readily available to do it. Now, I have attached graphs showing a five year average of this movement for your information.

I maintain that the Canadians have built up the most efficient bulk movement in the world and our feeling is that availability of ships is more important than the fractional savings which might be realized from the cheaper U.K. vessels particularly when related to the end product, for example, a loaf of bread or a ton of steel.



Now, ocean vessels will always go where they can make the most money. They may be here this year and another place next year. If Canadian ships are rendered unprofitable by the more cheaply operated U.K. vessels, we doubt if our country's interests can be served by depending on U.K. ships.

In our coasts and on the Great Lakes we feel that our Coastal laws should be amended to restrict the trade to ships of Canadian registry and owned by Canadian citizens. We think this is in the interests of Canada. We do not believe that we are any different from other industries such as the automobile industry or air transport and a host of others operating under the Canadian tariff.

Costs are brought down on our inland waters by bigness and the Canadians have not been slow to modernize. I have already mentioned to you the number of new ships which have been built since 1948 and if they had not been built we would not have been able to cope with the great increase in traffic which has taken place in the last few years.

Some people argue that restrictions will not bring down costs as much as they can be if U.K. vessels are permitted in our coastal waters. And I predict if the Canadian ships disappear -- and businesses have disappeared in this country. As you know, we have had a great industry in the last few years brought to its knees. And if the ---

THE CHAIRMAN: Which industry are you thinking of?





MR. McLAGAN: I was thinking of the textile industry. If Canadian ships disappear, I predict that costs will rise because there will be inevitably a shortage of vessels if we must rely on foreign vessels.

The rapid rise in ocean freight rates during the past year is something that would draw U.K. vessels to other ports of the world. Actually, at this present moment the Canadians can carry their products, say grain, down the lakes at a lower cost to the consumer per ton mile than are ocean ships at the present moment -- and the ton mile, of course, is not a true measurement due to our restrictive waters. A mile in the Welland Canal or Lachine Canal is not the same as a mile in open waters.

As regards the future, our estimate of our own requirements means that we should build 12 new ships. This will be necessary because with the advent of the Seaway, Canallers will be far too costly to operate and bigger vessels will be required to take their place.

I am attaching a separate estimate of the shipping industry as a whole, and with modernization and replacements of the smaller ships, we believe that over a period of 10 years over 500,000 tons of new shipping will be required. And we feel that it is good for Canada to have that built in Canada.

Naturally if our Coastal Laws are not amended, the implementation of such a program will be slowed up or abandoned.





In your consideration of the future needs of Canada, I do not see how you can overlook this important inland shipping problem.

Would you like me to say something about the shipbuilding industry now or should I wait?

THE CHAIRMAN: I think you might carry right ahead and we will ask our questions when you are finished.

MR. McLAGAN: I have a short statement to make about it and I have a brief to put in. I know that this was not planned and it is very kind of you to let us say something about shipbuilding because the shipbuilders over the country were very keen that you should know something about it.

Our own company, for instance, has five shipyards and is naturally interested in shipbuilding. At the present time, I personally happen to be the president of the Canadian Shipbuilding and Ship Repairing Association.

We feel that shipbuilding in Canada goes hand in hand with water transport. We believe it is an industry which is necessary for Canada to maintain because:

Firstly, inland ships must be repaired.

Secondly, ocean going ships must have emergency repairs done here. I say "emergency" repairs, because if they can possibly limp home to Europe, they do.

Thirdly, for the purpose of national defence.

The problems of the shipbuilding industry



are similar to many other secondary industries in Canada and to those of the inland shipping industry.

The wages paid in Canada are much higher than those paid in other countries, excepting the United States.

For instance, the approximate average wages paid to shipyard workers in the United Kingdom are about 60 cents an hour, Germany are about 47 cents per hour and the Netherlands about 44 cents per hour, whereas in Canada they vary from \$1.28 to \$1.91.

It is obvious that Canadian shipyards cannot meet such competition yet no thinking person would say in this day and age that, because of this discrepancy in wages, Canada should be without a ship-building industry.

For instance, we have witnessed a sharp rise in our gross national product and this demanded increased facilities which I have described to carry the bulk products, and to meet the demands we were able to build the other ships which I have already spoken about in the shipping industry brief. If we had not had a shipbuilding industry we could not have satisfied these demands. Even if the Seaway had been in operation during those years, and we could have obtained the ships in England, it would not have been possible to have obtained them in time from the U.K. yards, where I know they are quoting long deliveries.

I have already put in evidence an estimate of the new tonnage which it is estimated by the shipping people will be required in the future, and I maintain





it will be bad for Canada if it is not built in this country, and not only employ people in the shipyards but there is no industry that I know of that shipyard work does not go into in this country. We have built a great many ships and the material content was overwhelmingly made in this country. Yet if the Coastal Laws are not revised we think that much of it will be built elsewhere. As far as we are concerned, I do not see how we could avoid going elsewhere if our competitors do the same.

The building of ships particularly for the coasts and inland waters, will not solve all the problems of Canada's shipbuilding industry but it will go part way.

At present, revenues for the yards are derived from ship repairs, whether they are ocean ships or inland ships; building of ships for the coasts and inland waters; building of ships for Government departments, happily the Government decide to build their ships in Canada; and the building of ships for the Royal Canadian Navy. Certainly they have decided that they cannot afford to build the ships for the Navy in any other part than Canada, and we have seen the first units of the new Navy have been delivered and designed in this country, ships that we never thought it possible to build before. We have also built the greatest freighters that have been built on the Great Lakes and we have built ships up to 30,000 tons for the ocean. Ten years ago it would not have been thought possible for Canadians to do it.

Therefore, with the removal of geographical



restrictions of the St. Lawrence Canals, we fear that shipyards on the Great Lakes, for instance, will not be able to meet competition for the building of the great upper lakers for which they have become famous unless, of course, the Coastal Laws are changed.

In my judgment it is unthinkable that shipbuilding in Canada should be allowed to disappear. I will not labour this point further, Mr. Chairman, because I know you have a lot to do. I am filing with you a brief on the shipbuilding industry which we have written up, and its problems, and I am also taking the liberty of filing the brief which was submitted to the Royal Commission on Coastal Laws because it contains such a lot of factual matter, which we did not think we need to repeat again in the submission to you. I hope you will accept it because I think it is very instructive.

Therefore, giving consideration to all the factors involving shipbuilding in Canada, I do not see how your Commission can avoid giving some serious thought to the future of this industry when mapping the future course of Canada, and I trust that you will do so. I will hand these briefs to the Secretary.

THE CHAIRMAN: Thank you very much, Mr. McLagan. I think we are most interested in what you had to say and we will be most interested in reading these submissions you are filing. I would hope that if the members of the staff who are studying these questions have questions, they might feel free to write you about them if they need help and further elaboration.





MR. McLAGAN: Oh, yes, we will be very glad to do it. We can do it very promptly. We have been answering questions now for about six months.

THE CHAIRMAN: I don't want to get this Commission confused with the one you are more familiar with; we will try to keep out of that field. But this will be very helpful to us. Any questions?

MR. GUSHUE: Mr. McLagan, in your reference to the movements of wheat particularly, you mentioned the fact there were no facilities at present for the unloading of the larger lake ships at Montreal and that the storage which now exists in other places would have to be replaced in Montreal?

MR. McLAGAN: I meant Montreal or St. Lawrence ports.

MR. GUSHUE: Yes, but I rather gathered the intention, one of the reasons for enlarging the canal was to allow ocean ships to come in through, an ocean ship unloading wheat<sup>would</sup> not necessarily unload at Montreal or store at Montreal. Because the purpose of storing in Montreal or elsewhere is merely to pick it up and take it to a foreign port, isn't it?

MR. McLAGAN: That is right.

MR. GUSHUE: Then would not the position be that these ships would not have to do that? They would save that cost?

MR. McLAGAN: No, I don't think so. Our ships on the Great Lakes are much bigger and it is doubtful if you can depend on ocean ships in sufficient quantity to move directly from the head of the lakes to say overseas





ports.

MR. GUSHUE: But as far as ocean ships are concerned, these ships would not have to unload.

MR. McLAGAN: Ocean ships loading at the head of the lakes would go direct to Liverpool or Europe.

MR. GUSHUE: Yes, so you would not have to replace the present storage that you have in the two or three ports that you mentioned. You might have to have some storage in Montreal and some unloading facilities but not to the same degree.

MR. McLAGAN: I believe so, because this storage now exists at the transfer points. Now if that is taken away where is the grain going?

MR. GUSHUE: Well, why is it placed at these storage points? Merely to change to another type of ship?

MR. McLAGAN: That is right.

MR. GUSHUE: But if that type of ship goes into your lakes -- in part -- I am not suggesting that every ship that goes --

MR. McLAGAN: No, I don't think that they will go. I have not heard of anybody who thinks they will either. At the present moment it would be very unprofitable for them to do so.

MR. GUSHUE: You think they would just come as far as Montreal?

MR. McLAGAN: Yes.

MR. GUSHUE: And you would have larger ships carrying to Montreal?

MR. McLAGAN: Because our ships are much



larger than the ocean ships.

MR. GUSHUE: So they would break the voyage at Montreal in any event.

MR. McLAGAN: Yes. Then, of course, there is the factor that at the end of the year many of them wouldn't be able to go up and get out in time and that is why I mentioned the fact that there was such a large amount of tonnage moved of wheat at the end of the year when the freezing up is imminent. We are filing with you quite a recent report which gives all the information which we were asked to do by the Transport. There is some disagreement as to the matter of storage. I think it gets down to the fact that the Wheat Board will not pay them sufficient to store the grain, to pay for the investment.

THE CHAIRMAN: We just came from the West, I don't know whether we should get back into the grain trade. Would you like to, Dr. Stewart?

MR. STEWART: No, thank you.

MR. GUSHUE: You mentioned also the probability of heavier delays in the Welland Canal. Is that an insuperable problem or one that is likely to be attacked with the building of the Seaway?

MR. McLAGAN: We thought with your help we might get it tackled because it certainly is a problem.

MR. GUSHUE: I was wondering if there was a solution that you had to suggest.

MR. McLAGAN: Well, the solution is twin locks where they now have single locks.

MR. GUSHUE: There is a possibility of a





solution?

MR. McLAGAN: There is the physical possibility, yes. It was inferred in the paper yesterday that the building of twin locks in the Welland Canal would mean the expenditure of a hundred million dollars.

MR. GUSHUE: Speaking of the --

THE CHAIRMAN: May I interrupt just at that moment?

MR. GUSHUE: Yes.

THE CHAIRMAN: You mentioned the twin lock situation in the Welland Canal and there are other improved facilities and so on that probably go along with it. Have you any idea what it would cost?

MR. McLAGAN: The facilities at Montreal?

THE CHAIRMAN: No, on the Welland Canal.

MR. McLAGAN: It was reported in the paper last night that the putting of twin locks in the Welland Canal would mean an expenditure of a hundred million dollars.

THE CHAIRMAN: Would that be enough? I mean would that do the trick there or are there other things that are needed?

MR. McLAGAN: Well, the trouble is right now at either end of the canal are single locks and the ships are having to wait now to get into them because the traffic is so dense, and with the forecasted increase it will be worse, very much worse.

THE CHAIRMAN: What I am driving at is would an expenditure of \$100 million fix that problem or are there other things that would be needed as well?



MR. McLAGAN: As far as we know the other problem is the fact that it is silted in to 23 feet 6; they are now going to dredge that out to 25½ or 27 feet the same as the Seaway. That takes care of that. But the increase in traffic must be remedied by the duplication of locks at either end.

THE CHAIRMAN: Is there any suggestion of charging tolls, increased tolls, through the Welland Canal?

MR. McLAGAN: There are no tolls now.

THE CHAIRMAN: Is there any suggestion?

MR. McLAGAN: I have never heard it discussed.

MR. GUSHUE: On the question of the competition from other ships of Commonwealth registry, particularly from the U.K., that matter of course is before another Commission than this in a more immediate way, but you have made the point that you feel it is unfair particularly on the grounds of the lower rates through lower wages, costs of repair and so on. Is there chartering to any extent by the Canadian shipping companies of English shipping, prime charter and so on?

MR. McLAGAN: In the Great Lakes?

MR. GUSHUE: Yes, in the Great Lakes or generally?

MR. McLAGAN: Very little now because the restrictive nature of the present canals doesn't allow big ships to go up there but when ---

MR. GUSHUE: But it will be possible?

MR. McLAGAN: It will be possible. For instance, through the other Commission, designs of such





ships were placed before them. Through the great disparity in wages and the great disparity in capital costs and the fact that they can run the whole year round gives them a great edge on the Canadian Inland Fleet. On the other hand, the Canadian Inland Fleet has been set up for that trade, and we feel that the availability of the ships is the most important aspect of our trade and we doubt that we can depend on foreign ships to carry our inland products.

MR. GUSHUE: Coming from an island province, which we think should now be referred to as "the island" instead of Prince Edward Island, I know of course the resistance to the banning of English shipping in the coastal trade of Canada. You would know of that too, of course. I was wondering what the answer -- that resistance is based on the increased cost to the consumer there because it is an island -- and what would your answer to that be?

MR. McLAGAN: My answer would be first of all, the effect on the end product is very small, really hardly noticeable and if we were to depend on foreign ships I believe that eventually we would get the reverse because we would not have them there to do the job.

MR. GUSHUE: You think the same element of competition that you mentioned between the Canadian shipping companies wouldn't exist in the U.K. shipping companies?

MR. McLAGAN: Well, the U.K. shipping companies would come here when it suits them. If you look at the rise in ocean freight since a year ago, they





are having a veritable bonanza on the high seas today with the shipment of                      from U.S.A. to Great Britain, ore from various parts of the world to Great Britain and Europe, and also steel. Ocean ships are making far more money on the high seas than they did 15 months ago, therefore they go there. The Canadian inland ships are built for the Canadian inland trade and that's all they do. They are built solely to move great tonnages rapidly. But we have to pay the wages that are paid in Canada. Because a man travels on a ship is no argument with the labour unions that they should receive less than his counterpart on land. Furthermore, we have anti-cabotage laws in the air.

MR. GUSHUE: How is that reflected generally in the carrying rates, the difference in the wage rates and so on. Is there fairly general disparity or does that vary? That is, the U.K. ships as against Canadian carriers.

MR. McLAGAN: No, they are all controlled by unions. The British union and the Canadian union and the one thing is, we seem to be getting farther apart because as you know there is an upward drive for wages in this country.

MR. GUSHUE: Is there a fairly consistent difference in the rates that would be charged?

MR. McLAGAN: Oh, yes, we have filed information showing you the difference in rates for each member of the crew.

MR. GUSHUE: No, I mean in the carrying rates not of the wage rates.



MR. McLAGAN: Well, we don't know what the carrying rates are on the Great Lakes of U.K. ships. We do know that they can operate much cheaper than our ships.

MR. GUSHUE: Is there any competition as between -- well, we will take Newfoundland because as I said everything has to be carried by sea -- and Montreal, as between the U.K. ships and Canadian ships?

MR. McLAGAN: Yes, Clarke Steamship now, they are competing with the --

MR. GUSHUE: Yes, I know they both ply there. Do you know if there is great disparity in rates there?

MR. McLAGAN: There is no disparity, there can't be any. Clarke's, if they want to stay in business, have to meet these rates.

MR. GUSHUE: They have to meet the rates?

MR. McLAGAN: Yes.

THE CHAIRMAN: How do they manage that?

MR. McLAGAN: Well, I think they manage that because they have winter operation and also because they probably got their ships very cheaply after the war.

MR. GUSHUE: Are they complaining about that, do you know?

MR. McLAGAN: They were certainly before the Coastal Commission and they were contending that the ships should be restricted to those registered in Canada but they did not wish to have their ships built here unless it was the law of the country. They claim that if they had to build them here then of course, the trade had to be protected.





MR. GUSHUE: The cost of building is so much higher.

MR. McLAGAN: The cost of building, we think, is about 50 per cent more, and that is not unreasonable when our wages are about three times as much. The Canadian shipbuilding industry, in my opinion, has a lot to contend with. It is a marvelous industry and it has done a marvelous job. It is not a mass-produced industry; everything they do is a tailor-made job. You build airplanes, you get a thousand airplanes to build but you don't get a thousand ships to build, you get one ship or two ships to build.

MR. GUSHUE: Would it be fair to suggest that if the U.K. ships were banned that it would bring about an increase in rates in Canadian coastal shipping?

MR. McLAGAN: I don't think so. Competition on the Great Lakes certainly is fierce now. While it might bring a lowering of rates at one time, I contend it might bring a rise in rates if you haven't got any ships.

MR. GUSHUE: You think that it would not necessarily increase rates throughout?

MR. McLAGAN: No, I think the most important thing for Canada is to assure that her industries have their raw materials delivered to them when they require it, and as I say they only have a short time to get it. For instance, this year it was just nip and tuck that the steel industry got all their ore in and all their coal in.

MR. GUSHUE: Does that mean then that the Canadian ships can compete with the English ships even under existing conditions - freight rates?



MR. McLAGAN: They cannot compete with them in cost if the English ships want to hammer them down and they have nothing else to do.

MR. GUSHUE: They have not hammered them down to that extent at present.

MR. McLAGAN: They are not in there yet.

MR. GUSHUE: I see.

MR. McLAGAN: But they will be with the Seaway.

MR. GUSHUE: Yes, I am thinking both when the Seaway comes and also of the existing traffic.

MR. McLAGAN: I can only speak of the Great Lakes. I don't know anything about the coasting trade of Newfoundland at all.

MR. GUSHUE: Your argument is based very generally on the higher standards of living, higher wage rates and so on. Is it fair to ask that you apply that more generally and say that because it applies to the British motor car industry too that these motor cars shouldn't be brought in or is that an unfair question?

MR. McLAGAN: I would say why don't you let me go to United States and get my motor car cheaper. I answer your question by asking why I can't go down there and get it.

MR. GUSHUE: Well, wouldn't you like to?

MR. McLAGAN: No, not if you want to build up this country.

MR. GUSHUE: That is all.

MR. GRAUER: I just wanted to get clear on one point. The competition you fear from the British





ships, I gather that is not over the whole run of products carried on the Great Lakes but you fear enough sporadic competition to undermine the inland shipping structure. Is that pretty well your point?

MR. McLAGAN: I should qualify that by saying that it is confined mainly to the bulk products; in the matter of the general freight, what we call package freight, such a large part of the inland dollar is taken up in stevedoring. In that particular business, British ships coming in and operating on our coasts would then have to have the same expenses we do. Their advantage would merely be the sailing part of their cost, not the stevedoring.

MR. GRAUER: And even in the bulk shipping the British ships would not be able to handle the wheat, for instance, in its entirety?

MR. McLAGAN: Yes, the wheat is handled from the land. The bulk products, ore, coal and grain is loaded and unloaded by land installations.

MR. GRAUER: Yes, but I wanted to get your point. You don't think the British ships would be able to handle the whole of the wheat shipment?

MR. McLAGAN: No, I do not.

MR. GRAUER: But undermine the present structure.

MR. McLAGAN: Yes. The graphs that I have put in pretty well show the intermittent nature of the business and how ships are demanded on short notice. For instance, 1954 was a bad year, ships were laid up, yet in the fall there was a great demand for grain ships.





Well, some ships that were laid up in Georgian Bay were put in commission and taken up to the head of the lakes and brought grain down in the latter part of the season. The result has been , what happened this year, for instance, was that the grain in storage was brought down to 35 million bushels, while last year at this time it was brought down to 42 million and by March 1st it was up to 80 million. Now, if those elevators hadn't been emptied out, then that great winter movement from the interior of Canada to seaside or lakeside, whatever you want to call it, couldn't have taken place, because there would have been no place to store the grain. It is a movement that must work almost like clockwork, otherwise it affects the whole country. But there are specific figures, that it was down to 33, then it went to 80 million by March and this year was down to 35 and more likely will go back up there again. If those elevators at the head of the lakes were not emptied then that interior movement couldn't take place.

MR. GUSHUE: May I ask just one more question for the purpose of clarity. You have been dealing purely with inland shipping; this does not apply to goods loaded at Canadian ports for foreign destinations?

MR. McLAGAN: No. I would point out for the Commission though, that Switzerland, a land-locked country, has a bigger merchant marine now than Canada, and I think it is a rather significant figure.

MR. GUSHUE: Panama has the biggest, hasn't it?



MR. McLAGAN: I would not be surprised -- or Liberia, for obvious reasons.

MR. STEWART: What vessels are moving iron ore out of Seven Islands at the present time?

MR. McLAGAN: British vessels. I am glad you asked the question, I hesitated to bring it up.

THE CHAIRMAN: You don't have to hesitate around here, Mr. McLagan. I don't think you hesitate much in other places either, perhaps.

MR. STEWART: After the Seaway is opened, would you anticipate that Canadian vessels might participate in that movement.

MR. McLAGAN: Well, after the Seaway is opened, the iron ore will flow from Seven Islands right through to Great Lakes ports. At the present time the British vessels bring it from Seven Islands, Quebec, to Contrecoeur, Quebec, only, where it is unloaded into smaller canallers and Seven Islands, of course, to Lake Erie ports would be an international voyage if it goes to the States, or if it goes to Canadian ports it would be Canadian. The present laws allow British vessels to indulge in our inland trade. There has been a movement on foot in  
/United States to bring out regulations restricting the ships in the inland ports in Canada and the United States to Canadian and American vessels, because the Americans fear the intrusion of foreign vessels into their trade which in the case of Seven Islands to say Cleveland, would be international. Anybody could enter that trade.

THE CHAIRMAN: Anybody could carry iron ore from Seven Islands to Cleveland?

MR. McLAGAN: Yes, that would be international.





THE CHAIRMAN: So under present conditions and present rates of wages and so on, the presumption would be that tonnage would be carried by British or other foreign ships, is that right?

MR. McLAGAN: If they build the specialized ships. It is possible for them to build specialized ships that can go through the new seaway, into the lakes, and also operate deeper draughts in the winter on the high seas. It is possible to do that. Our ships on the Great Lakes are now restricted to inland waters by the nature of their construction.

THE CHAIRMAN: In other words, your ships could go down to Seven Islands, though?

MR. McLAGAN: The newer ships have been able to go to Seven Islands.

THE CHAIRMAN: Yes.

MR. STEWART: Do you think it is feasible to keep the St. Lawrence open as far as Quebec?

MR. McLAGAN: You mean as far as Quebec all winter?

THE CHAIRMAN: Up and down, all year round, yes.

MR. McLAGAN: Well, if you build enough ice-breakers, which we could do very nicely, I think it might be possible.

THE CHAIRMAN: What would you build them with?

MR. McLAGAN: I say we could do it very nicely.

MR. GUSHUE: Would it be economically



feasible, do you think, with the cost of keeping it open?

MR. McLAGAN: I am not capable of answering that question.

MR. GUSHUE: I know, it is a very academic subject.

MR. McLAGAN: We can see Fort Churchill. We seem to be able to do anything if we decide to do it.

THE CHAIRMAN: There was only one thing I was not clear on. I think you said that the tonnage through the Soo was greater in the eight and a half months, or whatever it was, than all the tonnage that passes through the Panama Canal or the Suez Canal at present.

MR. McLAGAN: And the Suez Canal.

THE CHAIRMAN: And the Suez Canal. Well, how much of that tonnage comes down through the Welland Canal?

MR. McLAGAN: Oh, a very small proportion, only the grain going to ocean ports and ore going to say the steel industries on Lake Ontario.

THE CHAIRMAN: Most of the tonnage goes where?

MR. McLAGAN: Most of the tonnage would go to Lake Erie Ports.

THE CHAIRMAN: I see.

MR. McLAGAN: But it is tremendous movement through there and it is of tremendous importance to United States and to Canada.

THE CHAIRMAN: Would there be much oil included in that tonnage?

MR. McLAGAN: No, because the pipelines have



taken the place of the tankers.

THE CHAIRMAN: It is all going by pipeline now?

MR. McLAGAN: Well, there are only a couple of tankers, big tankers left.

THE CHAIRMAN: Is there any shipment of new automobiles from Windsor to the head of the lakes?

MR. McLAGAN: Oh, yes, it goes steadily all the time. We generally take it on the decks of our ships, a sort of super-cargo, where we can run them on and off under their own power.

THE CHAIRMAN: We saw something or read something about special ships to be constructed for that business.

MR. McLAGAN: One of the shipping companies is considering taking one of the old bulk freighters and reconstructing it to carry automobiles. We now take them on the top deck of our ship.

THE CHAIRMAN: Well, thank you very much, Mr. McLagan, it has been most interesting and we look forward to reading these exhibits you are going to file.

--- Recess

--- After recess.

THE CHAIRMAN: We will come to order, please. Before we proceed to the next brief, I would just like to record that the submission of Canada Steamship Lines will be labelled Exhibit 108 and the submission of the Canadian Shipbuilding and Ship Repairing Association will be Exhibit 109.

The next submission is that of the Canadian





Industrial Preparedness Association which Major-General Howard has submitted to us and which will be Exhibit 110. Mr. Howard, will you proceed?

MR. HOWARD: Mr. Chairman, the prime purpose of the submission is to bring to attention the importance of industrial preparedness for defence, when consideration is given to the economic prospects of Canada, and to highlight some of the factors involved therein.

To give you a little story about the Association, it was formed in 1947, by a group of gentlemen whose experience in the Armed Services, Government Departments and Industry, during the last war, had given them a thorough appreciation of the dangers of loss of time and effort, in the mobilization of the industrial potential for defence.

The summarized objectives of the Association are, to effect, by all means within its power, scientific and industrial preparedness for the defence of the country, as well as to promote mutual understanding and co-operation between industry and the Armed Services, so as to provide a pooling of the experience of all concerned for the efficient equipment of the Canadian Armed Services.

The Association has provided, and will continue to provide, the services of competent and experienced committees to investigate and report on any matters concerning the technical, procurement, production, storage, distribution, transportation or other phases related to national preparedness for defence. The services of executives and technicians have been made freely available to the committees and to the government,



with the result that much assistance has been given on production, capacity, technical and material supply questions.

Engineering surveys of a large number of companies were conducted by the Association, the reports of which were made available to Government departments, as well as to large prime contractors seeking sub-contract capacity. Subsequently the services of the gentleman who made the surveys were loaned to the Department of Defence Production for some time without compensation. The Association is shown as advisor to the Minister of Defence Production, on the chart of that Department.

The subject matter of this submission will be presented briefly in sections, on the following subjects:

- (a) The continuing need for Defence Preparedness.
- (b) The role of the manufacturing industries.
- (c) The effect of increased population.
- (d) The need for more technical professional personnel.
- (e) The value of Canadian purchases, and
- (f) Close collaboration between Defence and Industrial leaders.

(a) THE CONTINUING NEED FOR DEFENCE PREPAREDNESS.

Under presently foreseeable world conditions, adequate defence measures in Canada will be necessary for years to come. Without those defence measures of all necessary varieties, Canada will not be fulfilling its role as a participant in the effort to assure the freedom of the Western World in general, and this country in





particular.

The defence and the economy of this country are interlocked. Without a sound economy, defence measures might well be inadequate, and with ineffective defence, our economic future might well be placed in jeopardy.

The principal means of national defence are the Navy, the Army, the Air Force, Defence Research, Civil Defence and the the sixth of these, the productive capacity of the country, backed by the people, without which all the others would be ineffective.

With the continuing increase in the mass destructive power of modern weapons, and the development of the means to deliver them over greater distances at greater speeds, it can be visualized that the time interval between the start of a conflict and its conclusion would be progressively less with the passing of the years. Therefore, all defence agencies, including defence production facilities, should and must be ready for immediate effective action.

In relation to the view that industry must, in the future, be maintained in a state of readiness for defence production, not anticipated in the past, the following extract from an address recently made by the Chief of the General Staff, Canadian Army, is most pertinent:

" Modern warfare, as everybody knows, is becoming more and more complicated and requires the use of more and more highly complicated and technical equipment and



"weapons. This country, or any other country, cannot afford, in view of the cost of production of these types of equipment, to lock up tremendous stocks such as may be required in war. It would not only be expensive but it would be unwise in view of the development that is going on from day to day. And so, that being the case, we must accept the fact - the services and the country must accept the fact -- that we must keep our stocks of reserves to the barest possible minimum, in order that we not only save money against the time when equipment will be needed in greater quantities, but also in order, when new developments come about, we will be able to spend the money on the newest and latest types of equipment."

(b) THE ROLE OF MANUFACTURING INDUSTRIES.

It is, of course, apparent, that the burden of industrial preparedness for defence must rest upon the secondary or manufacturing industries which convert materials into end products. These are the industrial organizations which provide the necessary plant, equipment, machinery, tools and personnel for defence production and essential civilian requirements, they also provide as well as the pool of skilled manpower from which the Armed Services must, in the event of war, draw their requirements to meet the problems of operation and maintenance of the new mechanical, electrical and electronic devices provided them.





These manufacturing industries cannot operate on a stop and go basis, since shut down of an economically producing organization entails lay-offs and the consequent loss of skills and "know-how" which cannot be preserved other than by continuing operation at a reasonable level of activity.

In view of the above, it would appear that to maintain a sufficiently great industrial potential for defence, for the long term future, the economy of the country must support and expand its secondary industries generally, in such a way that they may be continuously operated at an adequate production level to increase their facilities, and develop their experience and "know-how". Further, those facilities largely employed on specialized defence equipment must also be kept producing at a level which will enable them to preserve their skills and experience as well as to keep abreast of developments in their particular fields. In connection with this latter class of manufacturer, it is worth noting that they are never self-dependant. They rely on many sub-contractors to furnish components, fittings and sub-assemblies. Their capacity to assemble and produce end products is founded on the broad base of a great variety of industries.

For all manufacturers, the time interval between the start of a project and the beginning of useful production, commonly called "lead time", is of vital importance in regard to their preparedness for defence tasks.





(c) THE EFFECT OF INCREASED POPULATION

The greatest single economic factor which would benefit the whole Canadian economy would be an increase in population. This would have the effect of supporting the manufacturing portions of industry so that they could expand, as well as develop new methods and markets. In addition, the per capita cost of defence expenditure would be decreased, as would costs of transportation and other goods and services.

If, however, increases in population are to be absorbed without undue difficulty, increased employment opportunities must be provided. These are afforded mainly by the secondary industries. The primary or extractive industries, while producing wealth, do not provide that number of openings which would be significant in the overall picture. The types of employment offered by the secondary industries are of much greater value to the combination of the Country's economy and defence preparedness than are those offered by the primary industries.

In consequence, the planning for expanded economy in Canada should envisage a balance between the rate of increase of population, and the rate of expansion of manufacturing capacity.

(d) THE NEED FOR MORE TECHNICAL PROFESSIONAL PERSONNEL

In considering the economic future of Canada, serious thought should be given to the expansion of the educational facilities needed to produce, in increasing numbers, the professional and scientific personnel on whom the burden of design, development



and production of manufactured goods must rest. It is common knowledge that a shortage of qualified engineers exists today. Any anticipated expansion in our economy would be seriously hampered by a continuing shortage in the future.

It is noted from a Bureau of Statistics report that but 1700 engineers are expected to graduate in 1956, and but 2073 in 1957, whereas estimates of the number of graduates which could be absorbed varies between 2500 and 3000. Of those graduated, it is highly probable that a proportion will eventually obtain employment outside the country, where opportunities for greater financial gains exist. The correction of this situation rests in creating more and more lucrative opportunities in Canada, not only to hold those engineers graduated in this country, but to attract more young people to the scientific and technical professions. The present and future technological advances in all types of military equipment makes this subject of engineering education one of the utmost importance to defence preparedness, as well as to the economic future of the country.

(e) VALUE OF CANADIAN PURCHASES

Another factor which has a distinct bearing on the industrial potential for defence in Canada is the acquisition of that intangible commonly called "know-how". This can only be obtained by actual development and operating experience. Experience has shown that there is insufficient time to acquire it in an emergency. In view of this, it would seem essential to procure in Canada all items of defence equipment which it is possible





to manufacture here, even if a money premium must be paid to do so. If this is done, dividends in increased knowledge of requirements are assured, as is a greater measure of independence from foreign sources.

The money premium on Canadian Government purchases of equipment, is, however, not as great as it would appear, since a dollar spent in Canada circulates in the country and stays here, providing a profit each time it changes hands. Further, of every dollar spent by the Government in Canada, a considerable proportion is returned in taxes. Thus it would seem that the net cost to the taxpayer, to the country, of the dollar spent here is appreciably less than it would appear to be at first glance.

(f) CLOSE COLLABORATION BETWEEN DEFENCE AND INDUSTRIAL LEADERS

To achieve the most effective and efficient results in maintaining, over the years ahead, the defence production potential at an adequate level, the closest possible liaison between industrial leaders and responsible officials of Government, in the Defence and Defence Production Departments, is essential.

A forecast of defence requirements for the various segments of industry is necessary if intelligent planning is to be effected. Periodic reviews would keep the information up to date and enable manufacturers to adjust their own planning so as to make whatever provision is possible to undertake future tasks.

Other benefits to both industry and the defence effort would follow, such as the interchange of information on technological developments and standardization



of practices and specifications, for both civilian and service requirements, thus eliminating waste of time and money.

Finally, the type of collaboration envisaged would also assist to some extent in providing solutions to the problems noted in the preceeding sections.

Respectfully submitted, Mr. Chairman.

THE CHAIRMAN: Thank you very much, General Howard.

MR. STEWART: General Howard, it would be certainly gratifying to suppose that we could produce enough industrial capacity in this country to feel confident that we could protect ourselves against any possible attacker. I take it that that isn't possible?

MR. HOWARD: It does not seem so at the moment. Our area is so great, fifteen or sixteen million people just can't do it.

MR. STEWART: In other words, in considering defence matters, we have to think in terms of alliances and cooperation with our allies.

MR. HOWARD: Of course, we have that in the construction of this Early Warning line and other facilities around the countryside.

MR. STEWART: Doesn't that suggest then that rather than try and make ourselves -- put ourselves in the position where we can produce all the things that we need for defence equipment that there is a case for some division of effort within our alliances?

MR. HOWARD: Well, as we said here, we would like to make in Canada all that is possible to





make in Canada.

MR. STEWART: Well, do you mean --

MR. HOWARD: Some things are impossible for two reasons; first, you may not have the capacity, secondly it may be completely uneconomical, if you want two, you are not going to set up a plant to make two, you are not going to convert a plant to make two. See what I mean?

MR. STEWART: Yes, I know.

MR. HOWARD: That is understood, but on the other hand it is quite possible that there are things, there have been in the past certainly, things made outside that could have been done, which would have given us the know-how to make quantities. It is inconceivable that the industrial capacity of this country will not be required to be utilized to its fullest extent in the event of war. The last two wars, I think, have given us a strong example of that. The last two wars we were totally unprepared industrially with the result that it was some 18 months before our production became significant in the overall picture. But even then, we didn't make everything the Canadians required. But we did make things that we could make for other people.

MR. STEWART: But looking at it purely from the point of view of defence, might there not be a case in view of the large quantities of materials which are required for these purposes, that it would be more useful for us to concentrate on the production of materials than to try to get into all of the secondary industries.

MR. HOWARD: Of course, this is one man's





opinion. It is not an official opinion by any manner of means. If war were to come to this continent, or if war were to come anywhere in the world for that matter, there is only one place on which we can rely for any assistance - one country.

MR. STEWART: Well, looking at it from that point of view then, is there not still an argument for some specialization of effort on the North American continent rather than everybody trying to do everything?

MR. HOWARD: Oh, yes, I would not advocate that everybody try to do everything.

MR. STEWART: It is a question of how far it is wise for us to go?

MR. HOWARD: That is the question, but I say we should go just as far as it is possible to go.

MR. STEWART: I realize that the word "possible" in the way in which you, yourself, have now interpreted it, is simply a question of how far it is wise to go.

MR. HOWARD: That is right. I don't know of anybody that could make a general statement on that score and say that everything should be made in Canada or everything shouldn't be. I think each individual item has to be considered by itself, and carefully investigated.

MR. STEWART: Yes. Well, that was really the point I wanted to bring out. I rather gathered from what you said that you wanted to produce everything.

MR. HOWARD: Whatever was possible, I think I said. It is interpretation of what is possible. There



is another aspect, of course, that the character of warfare is changing, and changing so rapidly, that facilities of making weapons that would have been right up to date five years ago are now not required for that purpose. That is a thought too.

MR. STEWART: I don't know whether you would care to elaborate on it or not, but I have some difficulty in understanding this argument about the elusive Canadian dollar which if we buy things outside the country we proceed to lose, if we keep it here it continues to be of use to us. Would you care to elaborate on that?

MR. HOWARD: Well, I would just oversimplify the problem. Our gross national product, we assume, will run around 26 billion and we will pay for the cost of federal government alone, including defense expenditure and all other expenditures, something like four and a half billion. I think those figures are reasonably correct. Something like 17 cents out of every dollar spent for our gross national<sup>product</sup>/in Canada, goes back in taxes. That argument may be fallacious, but I don't know.

MR. STEWART: I don't want to pursue it further.

THE CHAIRMAN: General Howard, I think that the point or the question that Dr. Stewart was asking, I was going to ask in a different way -- but I think perhaps I will, anyway. You referred to the importance in the opinion of your Association, that the economy of the country must support an expanded





secondary industry generally, and later on, I think it was on page 8, you thought that it was important or essential to procure in Canada all items of defense equipment which it is possible to manufacture here, even if the money premium must be paid. Now, you already explained it, I think, in different terms. I am assuming that naturally there would have to be some qualification of these recommendations. You wouldn't pay an unreasonable premium?

MR. HOWARD: No, no.

THE CHAIRMAN: Or as you said to Dr. Stewart, try and manufacture here things which quite obviously it would be silly for us to try and make. On the other hand, I suppose you wouldn't go so far as to suggest that we should concentrate only on the production of materials, there is an industry here that certainly in the last war produced items of equipment that we would not have been able to get anywhere else at the time. Is that not so?

MR. HOWARD: That is quite correct, and there were times when our armed services were short of materials which neither we or anybody else could give us.

MR. GUSHUE: General Howard, on page 5 of your submission, you say:

" In view of the above, it would appear that to maintain a sufficiently great industrial potential for defence..."

I am not speaking of defence industries now --

"for the long term future, the economy of the country must support and expand its



"secondary industries generally, in such a way that they may be continuously operated at an adequate production level ..."

and so on. How do you suggest that could be brought about?

MR. HOWARD: I don't think I am competent to make any recommendations on that.

MR. GUSHUE: I was wondering if, from the wording of this, you had the protection of the secondary industries and so on in mind, or is that straining your powers?

MR. HOWARD: That is probably just one part of the picture. I wouldn't feel competent to suggest any methods or make any recommendations and I feel quite sure our Association wouldn't either.

MR. GUSHUE: You would not suggest that that particular aspect is quite vital to defense?

MR. HOWARD: No, I would not say.

MR. GUSHUE: Is it inseparable?

MR. HOWARD: No, in ordinary practice, as far as defence industry is concerned while the government may pay duty on what it buys outside, it is just out of one pocket into the other.

MR. GUSHUE: I am not thinking of buying for defence, I am thinking of --

MR. HOWARD: I see. It is a general point, yes.

MR. GUSHUE: You say the secondary industries must be protected so that you keep the know-how and personnel and so on. I was just wondering ----



MR. HOWARD: I was not thinking purely of protection, I was thinking of expansion.

MR. GUSHUE: I see.

THE CHAIRMAN: Thank you very much, General Howard.

MR. HOWARD: Thank you.

THE CHAIRMAN: We are very grateful to you. Now, we will adjourn until 2.30, and we will try to start sharp at 2.30 because there is a long submission to be made to us this afternoon.

(At 12:25 P.M., the Commission adjourned until 2:30 P.M.)





A F T E R N O O N      S E S S I O N

THE CHAIRMAN:    Shall we come to order, gentlemen?

Mr. Fowler, I think just before we start that we would like to welcome you into the ranks of Royal Commissioners.

MR. FOWLER:    Thank you, sir.

THE CHAIRMAN:    I do think you are taking on a most difficult and very important task. And it seems to me it is going to be a tremendous contribution, not only on your own part, but also on the part of the industry, as to how they are going to manage to get along without you for a month or two.

I think we have all read this brief that you are about to present and I would like to say what a valuable contribution we think it is to public knowledge and how immensely useful it will be to the work of the Commission. It seems to me it is something that not only the members of this Commission but everybody in Canada should be grateful for and grateful to your industry as well as to yourself. I might just also say that we are most appreciative of the help that you and your associates have been to the staff of the Commission and the very impressive amount of work that you have been doing for us. Now, if you would like to begin, we will mark this brief Exhibit 111.

MR. FOWLER:    It seems an easy number to remember anyway.

THE CHAIRMAN:    It may be easy here, I don't know.



MR. FOWLER: Well, Mr. Chairman, I appreciate what you have said. This brief went to you later, I am afraid, than we expected, only about a week ago, and you have had only a short time for reading and study, but I would like, if it agrees with your procedure, to go through it in outline, read a few parts of it, summarize others, particularly the more statistical detailed parts of it which I have no doubt your research staff will be studying in greater detail. After that, or as we go through, if there are any questions, we could answer them, and I have several of my associates here who will correct any mistakes I make and will perhaps be able to supply answers I can't give.

I would like, at the outset, in acknowledging the words you just used, Mr. Chairman, I would like to make it clear that this brief is very much a joint effort. I think everyone on the staffs of the Pulp and Paper Association and the Newsprint Association have been engaged on it and several of them have made virtually a full time job of it for the last two or three months. Some of those who worked extensively on it are here today but I would like formally on the record, to acknowledge the assistance that they have given.

I won't give you all of those who are here today, but in particular Mr. Mitchell, the general manager of C.P.P.A. is here; Dr. R. L. Theismeyer, the president of the Pulp and Paper Research Institute of Canada; Mr. Pepler, the manager of our Woodland section, and Mr. J. M. Smith, our Economist, who has worked on the overall details and who will continue to be available to





work with the Commission if you wish, as indeed we all will. I should make one addition perhaps. There is a separate brief dealing with the special statistics and prospects of the very important section of the industry in British Columbia, which is being prepared by the Western division of C.P.P.A., to be added as an appendix to the main data. We had hoped that it would be ready in time, but it is not quite ready yet, there is the problem of geography and making sure that what they had prepared out there and what we were preparing here was not too contradictory and so, if it is agreeable to the Commission, it will be forwarded within the next week or ten days to the Secretary in Ottawa for filing and study, and if need be, we can arrange to answer questions or make presentation at some later time.

I have some apologies, Mr. Chairman, for the length and complexity of this brief but in spite of its length, I may say that our research is even more extensive and some very interesting items had to be omitted from the formal document. There are one or two items that tempted us as perhaps literary curiosities; I might stop to take time for one, which is perhaps general warning to any Royal Commissioner. It is a statement made by the Honourable George M. Humphrey, Secretary of the U.S. Treasury, on February 2nd, 1954, to the Joint Committee on the Economic Report to the 83rd Congress. Mr. Humphrey said "We ought to start right out on this premise: there is no man and probably never has been and I think probably never will be, who can see very far into the future. If there were, and he had the courage of his convictions, it would not be very long before he owned almost everything



and we would all be working for him." So I think that is perhaps a note of realism and warning for Royal Commissions.

THE CHAIRMAN: Thanks for that prospect.

MR. FOWLER: But I do want to state in all seriousness, Mr. Chairman, how very sincerely the members of the Pulp and Paper industry welcomed the appointment of this Commission and how earnest is their desire to assist in this work. Somewhere in the brief, I think the point is made that the Commission will have a value far beyond its report, valuable though that will be to all Canadians. This more obscure<sup>or</sup> less direct value, comes from the mere fact of the Commission's existence and the important influence it is having in inducing business men to look farther into the future of their own affairs than they usually do. Certainly with all its defects and inadequacies, the attempt we have made in the pulp and paper industry to forecast the developments of the next 25 years has been most valuable. And I only hope that we and other Canadian industries will continue these exercises even after the Commission's report is published for there seems to be very great value in the longer look instead of thinking merely of today and tomorrow and next week.

Now, I would ask you to turn to the table of contents and I could perhaps give you a bird's eye view of the data. I might say that the underlying theme of this study which will be amplified and reasons given later, is that effective demand for Canadian pulp and paper products will be the main determinant of the





future course of this industry.

So after an introductory section, an historical section and a description of the Association's activities in the present structure of the industry, we do move to an examination of future demands, commodity by commodity. In some cases this has involved an attempt to project the course of world demand for the commodity, and the share of that demand Canada might get in the future. In others, our main concern, has been the course of domestic demand. But for all commodities we have tried to project at five year intervals to 1980 the amounts that we may be asked to produce. Those statistical analogies appear in Sections IV, V, VI, and are recapitulated in Section VII of the brief.

We then try to answer with some qualifications the question of whether there is wood enough to meet these world wide demands for pulp and paper products. That is in Section VIII, and in Section IX, we discuss a number of policies for both the industry and government that can assist in meeting these demands effectively.

There is a short section presenting the brief in Section X, a fairly lengthy Appendix which deals with technology and research in the industry.

With your permission I propose to read most of the introduction, a few paragraphs in Section II, only a very brief summary of Sections IV, V, VI and VII, a little more on Forest Assets in Section VIII and then I would like if I may, to go through the four subsections in Section IX quite carefully as they contain most of the particular and general policy recommendations we have tried to put forward. I also will try to give you the highlights of the Appendix





on research and technology.

Turning now to the introduction, viewed from the standpoint of Canada's pulp and paper industry, it is suggested that the principal danger facing this Royal Commission in its attempt to assess the long-term economic prospects of this country, is that the Commission will be too cautious - that it will fail to take full account of the dynamic growth influences at work in the Canadian economy. No doubt it is a Canadian characteristic to be cautious, to avoid the exuberance and over-optimism of some other nations, to be unable quite to believe the reality of our opportunities. That kind of modesty is perhaps a worthy and appealing trait. It is usually better, and certainly safer, to promise less than you actually achieve; if you do not hope for too much, there is less chance of disappointment. For men charged with an ambitious and difficult task, the role of hard-headed practical man-of-affairs has a certain short-run attraction; that of the enthusiast, the optimist, even of the dreamer, may have a less immediate appeal. But in the long run, for Canada - standing in the year 1956 and looking ahead 25 years - the dreamers are more apt to be right.

You have to make the usual qualifications and assumptions. We have to assume that there will, in the period, be no full-scale war between communist and non-communist blocs. Also that there will be no break-up of the western alliance, that the United States will not retreat into a renewed isolationism, that there will be no serious world-wide depression in the pattern of the early thirties. Those may or may not be reasonable



assumptions, but they have to be made. Otherwise this whole inquiry is useless.

Accepting these qualifications, this Commission, we suggest, should raise its sights to the full limit of what is reasonable and possible. The underlying forces in the Canadian economy are favourable and strong and they are likely to become stronger and more favourable. As Canadians, we cannot take much credit for our good fortune. Basically, it is the interplay of world economic factors over which we have little or no control that will determine our future prosperity. We have what the world needs, and what it will increasingly need as populations grow and standards of living rise. It may be well to remember that our present industrial boom is not generally based on the sudden discovery of unexpected and previously unknown resources. We have known for years that we had large reserves of energy, iron and base metal deposits throughout the country, and adequate and unexploited timber resources, and we had good reason to expect that oil and gas deposits would some day be found. Many natural resources were known to exist but they were, in the past, uneconomic to develop. Other countries, who were farther along in their economic history had sufficient resources for their existing needs. But now the tide of world demand - partly because there are more people with needs to be met and partly because their individual needs are rising - has caught up with Canada and her known resources can be economically developed. The incentive exists now for pushing on with new explorations and new developments.





The effect of these world forces on the Canadian economy is two-fold. There is an absolute rise in demand based on increases in population and in living standards. Canada can, as a minimum, reasonably expect to maintain her present percentage of these rising world demands. But beyond this, there is likely to be a relative rise in demand on Canada for a higher percentage of world requirements of many products based on natural resources. In many other countries - of which the United States is a major example - the supplies of many domestic raw materials are approaching their physical limits. The rate of usage of steel in the United States is approaching the point where U.S. iron ore reserves can not support it; the rate of demand for pulp and paper in Europe is nearing the maximum level at which European forests can provide wood. The extra requirements for larger populations and higher living standards must come in increasing quantities from somewhere else. Canada thus, we think, has the opportunity of providing an increasing percentage of a rapidly increasing world demand. The results of an absolute rise in total demand and a relatively larger Canadian share of that demand are cumulative.

This emphasis on what might be called the dynamics of Canada's position in the supply of goods based on natural resources is perhaps a point of some importance. The failure to give it sufficient weight may be one explanation of the inability of several major Canadian industries to meet the demands that are now being made upon them. It is not that these industries have failed to grow - often in a quite spectacular way. The



men who have directed their destinies have been vigorous and often courageous in expanding their productive capacities at rates that seemed adequate and at times overly-optimistic. But time after time in the past ten years, their apparently ambitious expansion plans have been overtaken by the rise of demand and so-called "shortages" have developed. It may be that we built all that could be built, given our availabilities of capital, labour and materials. But the result today is that Canadian natural resource industries are losing markets for substantial quantities of goods that they could have for the taking, and the Canadian people are losing the benefits they would derive from such sales. While our growth in the last ten years may have been as much as we could manage and digest, in terms of demands for Canadian products, our booming growth since the war has been too slow, not too fast.

If these conditions are likely to continue - and the basic economic forces would seem to indicate that on the average they will continue - it seems important that this Commission should accurately assess the future of Canada at a high level of economic activity. It will be detrimental if you discount that future through excessive caution, timidity or lack of imagination. The report of this Commission will have a profound effect on the future plans of Canadian industries. Perhaps those industries will be hesitant enough in appreciating the opportunities of development that are available -- in fully believing in their good fortune. Businessmen -- especially if they are successful -- have adequate





reserves of caution. The Commission can safely count on the conservatism of Canadian businessmen to prevent any wild expansionary spree. Their necessary pre-occupation with the pressure of immediate business problems and with short-term fluctuations in the economy will be an adequate antidote to any long-term optimism that the Commission's report may indicate.

I hope some of these introductory ideas may be illustrated by examples from the Canadian pulp and paper industry and an examination of its possible future development.

The second Section contains a description of the Associations in the Pulp and Paper Industry. I don't propose to read it. You may find some interest in the description of one pattern of industrial organization in this country and we think that happens to be a pattern which is substantially different from other trade organizations in Canada and in the United States.

There is one part at the middle of page 3 which I might read - about halfway down.

It may be worth noting, that in the decisions of our Council and Executive Board, a small company has an equal voice with a very large company. It may also be interesting to note the steady growth of membership in the association which reflects the growth and diversity of this Canadian industry. Whatever tendency there may be in other industries towards concentration of economic power in larger and fewer units, that tendency does not appear to be at work in the





Canadian pulp and paper industry. Individual companies have grown materially with the growth of demand for pulp and paper products, but new companies -- many of these of substantial size -- have entered the industry, and existing companies have diversified their production by undertaking new lines which they did not formerly make. Because of the large capital investment required by modern manufacturing techniques, it is likely that a Canadian producer of pulp and paper will be big. That bigness has not, in general, been the result of mergers and consolidations, and, at least since the war, there has apparently been no obstacle to the emergence of new entrants of size and substance.

Now, we go on to describe the various sections and activities of our paper association, particularly the technical and woodland sections and the newsprint association. At the bottom of page 4, I suggest that perhaps this description of the association may have some interest in itself.

Why do we have trade associations? Are they important to the functioning of the Canadian economy in the next 25 years? Is it valuable to have them as an element in our society or is there some validity in the popular belief that trade associations are undesirable concentrations of economic power?

No doubt there are trade associations of different kinds and with different philosophies. Perhaps their functions have changed or are changing in the Canadian economy. I think possibly a case could be made out for a concentration of power in industrial



groups, under the theory of countervailing powers in the North American type of economy. At the turn of the century, a business man at the head of a large corporation had considerable personal power, which was subject to little effective control other than from his own conscience and his own self-interest. Subsequently, this concentration of individual power produced compensating reactions, hastened perhaps by examples of individual excesses and abuse of powers. With the emergence of "big labour" and "big government" effective controls were established over individual business power and the process of compensation may have gone too far. It may well be that the position of the individual businessman should, in the interests of a balance of power in the economy, be strengthened by group collaboration in legitimate and proper activities.

Whether there is any validity in that theory, it is not the theory on which our associations operate for our associations have no power, except the power of persuasion for common actions which commend themselves to a substantial majority of the members.

There is one point about the middle of the page there that we are touching on, that the activities of an association, particularly in the areas of statistics, trade information and research have a special value for the smaller companies in an industry. It is possible that the larger companies, with much duplication of effort and expense, could provide themselves with statistics and general economic information; many of them could, and do, undertake scientific research. But





for the smaller companies and the newcomers to an industry it is almost physically impossible and prohibitively expensive.

I think it would be instructive if the Commissioners could listen to a discussion at a typical meeting of the Technical or Woodlands Section of C.P.P.A. They would find, to a degree that may be unusual in Canadian industry, there is detailed exchange of operating information and scientific development. Operators or researchers will disclose in precise detail, improvements in manufacturing or forestry techniques, some of which might be patentable and most of which could be kept secret for a considerable time. They do so on the sound theory, that when two men exchange ideas, each contributing one, they each end up with two ideas. The mills and woodlands operations of the industry are open to their competitors, with rare exceptions, and visits by the personnel of one company to the operations of other companies are almost continuous.

When we talk of our Canadian economic system we tend to emphasize its competitive nature. The habit of co-operation for greater productivity and efficiency is just as important and leads inevitably to stiffer and more vigorous competition. In North America the constant and highly organized interchange of experience, of technical information, of problems and the way to solve them is as radically at variance with the traditional secretiveness of business and industry in the rest of the world as is our emphasis on competition. It is



not an accident that the most highly productive and competitive business systems in the world are also the ones most ardently devoted to annual meetings, conferences and conventions.

Now, Section III, gentlemen, is a very brief historical sketch of the industry with an outline of its present size and activity. I am only going to mention a few points in it, and it, itself, only touches the milestones and the main trends. The first mill in this industry was built near Lachute, Quebec, in 1805. An interesting comparison between 1871 and today.

In 1871 all the mills made 10,000 tons of paper; there were 21 mills employing 760 people. In 1955, the total industry output will be not 10,000 tons but 10 million tons. That output will come from 127 mills, employing about 65,000 people, and giving part or full time employment to another 250,000 persons in the procurement of wood.

Various technological innovations came along to produce this; the first use of wood about the time of Confederation and about that time the first form of chemical pulping took place. Twenty years later, in the middle 1880's, the first chemical sulphite mill was established and in 1907 the first kraft or sulphate mill.

In the non-technical field, one great factor which I will mention later in the newsprint section, was the making of newsprint duty free into the United States in 1911, and that was extended in 1913 to wood pulp.





Various changes at that time in the technological developments cast the industry in pretty much its present mold. The free access to a large and rapidly growing United States market made possible expansion on a new scale, but it also shaped expansion predominantly in the form of newsprint and pulps.

You will see on page 7 in Table 1 a summary of statistics. By 1920 the industry had substantially achieved its present form of large scale units mainly engaged in external trade. You will notice the sudden change in the numbers of mills and the numbers of employees and value of output up to nearly  $1\frac{1}{2}$  billion dollar value in 1954, and also the change in the next part of the table in the distribution of shipments from being predominantly, at the turn of the century, a domestic industry to be quite overwhelmingly an export industry by 1920 and even more so by 1954.

The breakdown by products is also given - 60 percent now is newsprint just under 6 million tons in 1954,  $2\frac{1}{2}$  million tons in market pulps and slightly under 20 percent or 1,600,000 tons of other products.

If you look at this long stretch of the past 50 years you will see that up to 1920 there was a very rapid advance; after 1920 a slower more evolutionary type of advance; between 1900 to 1920 the industry increased ten-fold against a five-fold increase since then. In other words the curve is rising but it is to some extent flattening out.

The rest of the page deals with part of a point which is perhaps worth mentioning and that is the





way in which commodities of this industry are predominately service commodities. They tend to tie in with the general rise in living standards and with general economic development. With the development of mass production and merchandising in this century, there has been great expansion for the products of the industry in the fields of packaging, business communication and advertising. In the cultural use of the products, the industry found a growing source of demand in rising population trends, higher literacy and improved education standards.

We did this probably because we had several advantages in the wood, in the water and in the power that we had here. Our forests are one of the prime resources of the world. We have an area of productive forests covering 825,000 square miles - almost as large as the total land area of Quebec and Ontario combined.

Canadian rivers and streams do three things. They provide the transportation for the wood, with 80 percent being river driven; they provide large quantities of process water, some 500 billion gallons annually to the mills, and lastly they provide much of the power requirements of the industry, Canada being second among all nations as a producer of hydro electric power and of all power consumed in Canada the pulp and paper mills use more than 25 percent.

Now this fact of abundance of resources was not alone enough to produce the industry which we have today. More importantly these resources were available for the manufacture of pulp and paper products at relatively low cost. The preceding pages have dealt



with the factors which made possible the large scale production of these products but it was the competitive attractiveness of our resources which explain the development of the industry in Canada. It is relevant to add that just as this was a necessary condition in the past, so will it be in the future.

At the present time, in pages 9 and 10, there is a most brief summary of the size and structure of this industry today. It is the largest industrial enterprise in Canada. It accounts for 24 percent of the total value of exports and a third of all exports to the United States. In these products in which it has been possible to develop international trade, the industry is in a leading position among world producers.

The breakdown is today: Newsprint about 60 percent, totalling about 6 million tons - five times as great as the production of newsprint in any other country. In terms of markets, about 7 percent of newsprint goes to Canada, about 82 percent to the United States and the remaining 11 percent to some 65 other countries.

The second largest product is market wood-pulp. We should explain that we only take the wood-pulp which is exported rather than the wood-pulp which is sold in Canada as pulp, in order not to be counting that pulp and also counting the end product. We do take in the figures of domestic sell-out of non-paper pulps such as dissolving pulp. Taking with that definition market wood-pulp, it accounts for just under 23 percent of production in '54; it put Canada into a leading position in the field in the world, we pretty well share the lead





with Sweden now, whereas in 1938 we produced not 30 percent of the total but only 11 percent of the world total plus export. The distribution of this  $2\frac{1}{2}$  million tons of pulp in '54, 77 percent went to the United States, with the remaining 23 percent going to 34 countries overseas.

The remainder of the industry's products, almost a fifth, is made up of a wide range of papers and paperboards, generally protected throughout the world by substantial tariff barriers and therefore these segments of the industry are primarily engaged in supplying the domestic markets. Exports are relatively small and tend to vary from year to year. The breakdown is paperboard about 10 percent of the total production, some 950,000 tons. Book, writing and groundwood papers made up 2.7 percent, 260,000 tons. Wrapping paper a quarter of a million tons, about  $2\frac{1}{2}$  percent of the total industry output, and tissues, sanitary and specialty papers about 190,000 tons, just under 2 percent of the output.

With that very brief bird's eye view of the industry as it exists today, breakdown by markets, breakdown by commodities, the statistical sections starting with Section IV and we deal with newsprint first, partly because of its sheer size, it is about 60 percent of total output, partly because of Canada's predominant position in the newsprint picture. We do say here that we think here in Canada there is a certain amount of claim to being specialists in the production and distribution of newsprint. We think that we have



been fortunate in developing an industry which can produce newsprint economically. We don't pretend for a second that we have automatically or by right a major share of future world requirements. But we do think we can say that the newsprint industry in Canada is starting the next quarter century from a position of strength arising from its proven technical efficiency and established trading relationships.

It might be worth just a glance at Table 2, in which world demands have advanced in the last 25 years from a world total of 6.4 million tons consumption in the '25-'29 period, the '50-'54 is almost, well it is nearly double, about 10,868,000 tons. If you look at the supply from Canada you will see a growth of newsprint from 2.3 million tons in 1925-29 to 5.6 million tons on the average in the last five year period.

The main picture which comes from Table 3 on page 12 is to point out first the predominant position of the United States as a consumer of newsprint, at the present time just over 51 percent of all the newsprint in the world and the predominant position of Canada as a supplier of newsprint, just over 50 percent of the newsprint production of the world.

On the next page there are a couple of points made, one is that even if you exclude the export to the United States the remainder of the newsprint export from Canada, make it still by far the leading exporter of this commodity, to other markets of the world.

From these two tables the first outline of the world newsprint market emerges. It is the picture of





a commodity for which demand and supply have been rising and continue to rise without apparent abatement; which is produced in appreciable quantity in only a few countries, with Canada far in the lead and which is largely consumed in most of these same countries, with the United States overshadowing all others.

We have found, as noted in the next paragraph, a quite amazing correlation between newsprint consumption and living standards. The actual pattern of use - in a country like the United States you tend to have very large newspapers with not so large circulation. In the United Kingdom you have very large circulation with relatively smaller size papers. But the correlation existing between the newsprint usage and the living standard is quite remarkable. In fact, the F.A.O. people have prepared a correlation of 31 countries which they have put on a sort of scatter chart and it shows a remarkable agreement in that chart between the world level of living standards and the consumption, and we refer to that later on in some of the projections which we make on the subject of newsprint.

We move then to a pretty complicated analysis of the outlook for newsprint demand in the United States. What we are trying to do is to build up over the next 25 years a picture of total world demand for newsprint. Then we try to see where it is going to come from and how much of it is going to come to Canada. We have to start from one point, and the largest naturally is United States, and we have some, I think, interesting points on what that trend line looks like. If you just take the long





term 1913 to date trend line, it has been rising pretty quickly at an accelerating rate as shown in the scatter chart on page 14. If you just project that line into the future, it gives an astonishing figure of 14 million tons for 1980. And we ask ourselves do we face such an exciting and perhaps embarrassing prospect? Later on we conclude that it is not going to be that bad.

THE CHAIRMAN: Not quite that bad, or not quite that good?

MR. FOWLER: 14 million -- well, it depends on the point of view. At the moment I think a lot of people would say it was bad.

The point is that the past factors of U.S.A. growth will not continue with the same force and effect. We think that the growth will continue but there are elements which make up that rising trend line which are unlikely to re-assert themselves in the next 25 years with the same force. For example the technological development of the high speed presses, the development of communications which took place in this period with the telephone, telegraph and radio coming in, contributed to usage of newsprint and the development of United States press as a mass medium of communication. The economic factors contributed to the upswing of newsprint demand in the past. The population is rising rapidly and steadily, and finally we refer in the list of the past influences to the U.S. tariff action of 1911 which shows undoubtedly the rapid growth of the U.S. publishing industry was due in some measure to the provision of large tonnages of Canadian newsprint at low prices.



In the volume of international trade to which this has grown, an important contribution has been made to the growth of the Canadian economy and to the size of the Canadian market for U.S. products.

I would like to just pause there a moment to make a point which is in the text which I think sometimes we don't see in relation to the way in which it is possible sometimes to improve international trading relations and benefit both sides in the deal. This seems to be a good example of the way to expand international trade successfully. For one thing, despite what you sometimes hear in the orations the other side of the border, the free entry of newsprint into the United States produced no apparent injurious effect upon the United States newsprint industry. Domestic capacity to make newsprint in the United States continued to expand for 15 years after 1911. Production did not fall in the United States until 1935 and then only because of the depression. Conversely, as we have noted, the growth of the industry has been of great value to Canada and thus to U.S. industry which exports to Canada.

Now these past factors which have led to this rapid upswing in demand in the United States are changing. It can't be a simple continuation of the historical trend line. What we have to do now is to speculate on the future of an industry, the publishing industry in the United States which is a mature industry rather than an infant.

In order to make a guess at the future





requirements of the United States for newsprint, we say the three end-uses are  $93\frac{1}{2}$  percent to Daily and Sunday newspapers,  $1\frac{1}{2}$  percent to Weekly newspapers and 5 percent to other uses. We might assume that the two smaller parts of this will go along with the others and just look at the daily and weekly and Sunday newspapers.

In the demand outlook for them there are three factors to consider. First, the number of copies sold as circulations; second, the number of pages printed of advertising mainly, and third, the average size of the page. The average size of the page is a minor factor which we can pretty well ignore, at least we don't know which way it is going and it is pretty small anyway. But we do examine the circulations and the advertising. And in the section beginning at page 18 we examine the long term trend of U.S. newspapers per adult population. It turns out that it is an increasing rising curve that is flattening out as the market becomes more completely covered. We projected that curve of circulation per adult population through to 1980 at five year intervals and placed it against the U.S. adult population estimates, which are virtually actual population figures for at least 20 of the 25 years, and the conclusion is at the top of page 20: The per adult trend estimates are shown by five year intervals in Table 4 and these have been extended to obtain aggregate circulation using the latest U.S. Census Bureau projections. The circulation projections show increases between 1950 and 1980 of roughly 31 million copies for both dailies and Sundays, equivalent to proportionate gains of 58 percent



and 70 percent respectively. A weighted average of these two growth rates, for the purpose of estimating their effect on newsprint demand, would be about 62 percent. You get a 62 percent increase for circulation taken alone.

On page 20 we look at the pages printed which is mainly an advertising influence, the present average <sup>of</sup> distribution/space in the American newspaper is 60 percent advertising matter to 40 percent editorial unpaid content, and we ask ourselves three questions:

- (1) What is the outlook for advertising?
- (2) What is the outlook for the newspapers of the United States' share of advertising?
- (3) How will this affect newsprint requirements?

As far as the advertising outlook is concerned we are pretty optimistic about it; there is certainly some relationship between the Gross National Product and advertising expenditures. Over a period from 1914 to 1954 excluding the war years because they were rather special and distorted, and weighting the average, from 1914 to 1954, 2.4 percent of the U.S. Gross National Product went to advertising of all kinds. We have applied that 2.4 percent to the estimates of Gross National Product through to 1980 based on U.S. sources of figures and in constant dollars. The result is that in 1980 the total U.S. advertising expenditures look like 14.8 billion dollars compared to 5.7 billion in 1950, and that is probably conservative because as the standard of living rises, the pressure for more advertising may increase.

Now, what will the newspapers get of that? That is discussed beginning at page 21 and there is no





clear-cut trend; the newspapers' share ranged from 32 percent to 51 percent in the period between 1920 and 1954. In 1954 it was actually 33 percent, which is at the lower end of the scale and without going into the reasons we think we are taking a conservative figure in assuming 33-1/3 percent as to the U.S. newspapers' share of the total advertising take. That would mean that \$5 billion in constant 1949 or 1950 dollars go to U.S. newspaper advertising.

For that amount of money, assuming present advertising rates and present 60-40 division of space between advertising and editorial, we say that on the advertising front U.S. newspapers will need 95 percent more newsprint in 1980 than in 1950.

We have got the two things, circulation up 62, advertising up 95%. These are factors of length and breadth which we attempted to multiply together to get area and we think we can multiply them together and get area in an economy that uses newsprint at a relatively low level of per capita use. We think there are indications that the two factors of advertising or size of paper and circulation begin to react on each other after you get up to a certain size of unit. You may be able to raise a newspaper from 24 to 48 pages and have no appreciable effect on the circulation. In fact, it might even go up. Go from 48 to 96, you may encounter some resistance. Go from 72 to 144, the tendency is that people who are buying three newspapers may only buy two. We have a factor of readership time coming in as to how much against competing claims for his time he is prepared





to devote to the use and reading of a newspaper.

Now, we have some figures for the last ten years which appear here, it is really too short a period to be sure of the accuracy of it, but those figures do indicate that in the United States this interplay between the forces of size and circulation is taking place. We did prepare an index of page circulation per adult which has been projected through to 1980 at five year intervals and thus we worked out estimates of future newsprint versus consumption. It is a new factor, I don't think it has appeared anywhere before but at page 24 in table 5, this projection has been made in the rounded last column which would show a U.S. newsprint requirement consumption in 1980 at 10,450,000 as against their present consumption of 6 million 6. We then set those<sup>new</sup>/projections which we had made by this method in the first column of table 6, and place it against /all that we have been able to find of other long term projections of U.S. newsprint usage and they show quite amazing correlation using different methods. They have the 62 percent circulation factor, the 95 percent advertising factor, we end up between the two with an estimate of 76 percent increase over the period for U.S. requirements.

It is certainly on the conservative side that that figure is taken; it may fail to take sufficient account of the ingenuity and growth possibilities of the U.S. publishing industry, or of the capacity of the American public to adapt itself to both larger circulations and larger newspaper sizes.

At the top of page 25 I might read some



short conclusions from this:

What conclusions can be drawn from the substantial difference between our estimates and the product of the circulation and advertising projections. The first is that there will be changes necessary in publisher's policies resulting from the pressures for more circulation and more advertising. Secondly, it is probable, at least this is my guess, that the pressures for more circulation are likely to be effective and the American newspaper will remain a relatively cheap, universal medium of mass communication. By history the publisher has always attached great importance to the circulation. And if that is so, the advertising space in U.S. newspapers will have to be rationed in terms of size to avoid serious infringement on circulation; the dollars available for newspaper advertising will have to be used to buy smaller areas of space and the newsprint required would be less than it would be at present space rates. No doubt the process will be, and should be, a gradual one and there will be experimentation in choosing between the conflicting claims of circulation increases and advertising increases by U.S. publishers. But it does seem reasonably clear that there is a considerable area of choice within which publishers can safely operate.

THE CHAIRMAN: May I interrupt? When you say rationed, that advertising would have to be rationed, you mean in the usual sense or would it be rationed by putting the price up?

MR. FOWLER: I think perhaps putting the





price up. Frankly, if you want to put it in the bluntest terms the conclusion is that publishers do not need to worry about the price of newsprint.

THE CHAIRMAN: I just wondered if you had a conclusion on that.

MR. FOWLER: Their concern, and it is a very real concern is the amount of their supply and apparently with the amount of advertising that will be offered, with the space to take in news spread, with the danger that there will be to infringe on the circulation because of this interaction of forces they have got plenty of room for manoeuvring.

That United States picture is through to 1980, the Canadian demand is not nearly as detailed. It is a curious thing but there is very little statistical data on the press of Canada. We have tried to do the same kind of thing as we did for the United States and we just haven't got the material to do it. It is, of course, only about a twentieth of the size of the demand in the United States and therefore in the overall figures we have been building up it doesn't loom so large. But this local market is important; it is fifth in the world in total tonnage, third in per capita usage and a rapidly expanding market. We see in Table 7 the totals in per capita usage has risen from 200,000 tons in '45 to 450,000 tons in '55, which is somewhat more rapid increase in consumption in Canada than in the United States or in any other country in the world as far as I know. We have taken three methods of projecting Canadian demand -- a straight line projection gave



73.3 percent per capita in 1980; no doubt your staff will look at it for it is an interesting correlation with U.S. national product and newsprint consumption figures which was worked out in detail which is 72.5 percent and another correlation between Canadian Gross National Product and newsprint consumption which yields 74.9 pounds per capita. So they are very close together and using your own Commission population estimates at five year intervals we get results which appear in the table on page 29. And we have taken, since they are so very close together, the last column, which is slightly higher than the other two, but only slightly -- a figure of 964,000 tons for Canadian newsprint requirements in 1980.

Then we get to the rest of the world and this is where we really get into a bit of free wheeling I am afraid. The data is very uneven -- some countries are well documented and others aren't. We could say this, we have fairly complete world figures which we gathered in the Newsprint Association and we do acknowledge our debt to the Department of Trade and Commerce and to the Trade Commissioners throughout the world in helping us work out that world survey.

The actual distortions on the rest of the world as compared with North America were much greater. In North America, newsprint consumption never went down more than 10 percent; in the rest of the world it went down as much as 64 percent because of the impact of war. The recovery was delayed by war damage and then by exchange difficulties and finally by the fact that heavy





demands in North America made it impossible to buy it here. It was only in 1953 that overseas came back up to even its pre-war level.

Now, what we have done is to divide the overseas countries into seven regions, shown in the table on page 31; we have drawn on a detailed analysis made by The Economist a year or so ago, country by country, which went only as '60 to '65, and for each of the regions we have drawn pretty arbitrarily an extension of the curve based on our own best guess as to trends of population and economics and so on. And with that, we have worked out at least some indication of what the totals would be in 1980 and intervening years.

The table on page 31, Table 11, gives the figures for the different regions. It shows an increase just under 6 million tons in the rest of the world in 1955 to 14.2 million tons in 1980. While that takes in United States, Canada and the rest of the world and in the final section on page 31, the newsprint demand prospects of the world are recapitulated and they appear in Table 12 on page 32.

Two main figures for present purposes are 13 million tons present consumption in the world; in 1980 25-3/4 million tons estimated consumption. We then assume that the Canadian demand will be supplied largely by Canadian newsprint producers, but we get into more difficulty when we try to guess how much will be supplied to the United States by the rest of the world, and we have to undertake something on it in order to work out a Canadian potential figure.





The next few pages deal with Canada's newsprint exports to the United States. In this we have summarized, -- or the history is summarized in Table 13 on page 32; the notes at the bottom repeat the important role Canada has played in total U.S. supply. The figures also show the decline of U.S. production through to 1945 and then the subsequent upturn to date and a relatively minor place in the market by European producers and we feel that having regard to the European demands for newsprint the future role of the European newsprint producer in North America will continue to be a minor one, although from time to time there will no doubt be sales as a source of trade dollars and because of tradition and the like. This leaves, practically speaking, Canada and United States as the potential sources of supply to the United States.

In recent years the downward trend of U.S. newsprint production has been arrested and has turned upwards. There are now plans of U.S. producers which indicate some 600,000 tons of new productive capacity in the next three years in the United States. Most of the increases of recent years have been in the southern states using Southern Pine.

On page 33 there is a discussion of how this came about. Very briefly there were two factors which led to it. In the first place they solved the technological factor of using the fast-growing, resinous softwoods of the southern States to make newsprint. The second factor which isn't noticed so much perhaps



is that the south itself advanced in economic well-being and in population and became a much better market for the buying of newsprint. The moment those two factors came together, it was inevitable and proper and right that there should be a southern newsprint industry developed. It is still true to say that southern newsprint may still be somewhat inferior to northern newsprint but there is no doubt that technology will solve those problems in due course.

Now a Canadian producer with substantial business in the Southern States may be faced with a choice as to what he is going to do about it; he may decide to build a mill there to supply his southern customers or he may seek to place the tonnage sold there elsewhere in more economic markets, with lower delivery costs. It is important to make the point that a decision of a Canadian newsprint company to build a mill in the south is not a decision that the South is a better place for making newsprint; it is only a better place for making newsprint for the efficient supply of certain markets.

It is hard to predict the future development of newsprint in the South - there are a lot of forces bearing on it. In many respects southern wood is more valuable for making other products. It has long, strong fibres that are particularly used in packaging materials, as the growth of that industry in the south shows. The whole development of pulp and paper production will proceed and the early abundance of low cost wood begins to encounter competition between various kinds of use.





While there is apparently still an adequate supply of southern woods, the availability of large areas sufficient to support a modern pulp or paper mill in perpetuity is less easy to find and, with rising demand for wood, the cost is rising. Then as the economy goes up in the United States the demand for other products made from wood will also rise and those competitive factors will probably bear specially on the wood of the South. In other words, newsprint production in the South may be expected to expand but it will not have a clear field without competition from other pulp and paper products. Costs of wood for newsprint production in the South are rising and will probably continue to rise and the gap between Southern and Canadian wood costs is likely to narrow.

Another limiting factor on the south which we don't hear too much about, is water, which is required in very large quantities and in a high state of purity. No doubt the problem of water supply can be solved but it will be done after some delay and only at a cost which will be reflected in the total cost of production.

In the centre of page 34 there is a point which may have some interest. I have only put it in because I am tired of making this answer. You hear so often, isn't the southern wood growing so fast will it put Canada out of business as a producer of pulp and paper? Well, I say this, that once a log of wood reaches a mill it makes no difference if it has taken 30 years or 90 years to grow. Actually the longer



growth may give it a higher and better cellulose content. The speed of growth does bear to some extent on cost. The forest area needed to support a mill in Canada is approximately three times the area required for a comparable mill in the South. The smaller area has some advantages in fire protection, silviculture and ease of handling, but it may well be that favourable stream-flow will transport the 90-year log to the mill more cheaply than trucks and railways can carry the 30-year log to its destination. The advantages of rapid growth are cost advantages - not quality advantages; they may be considerable but are not overwhelming.

We say that assuming the development of pulp and paper production in the south has now reached a stage of relative maturity, it would not be unreasonable to expect that the growth of newsprint production in the South would proceed in step with the growth of newsprint demand in the United States. There are the export markets to be served also. In the rest of United States as well as Canada, one of the factors is the use of hardwood for newsprint which is being developed in Maine and to some extent in Canada, and it is quite a potential.

At the bottom of page 34 I deal with a point of some importance. There are several political imponderables affecting the future of U.S. newsprint production and Canada's share of the U.S. market in the next 25 years. Newsprint is a politically explosive commodity. It has been the object of innumerable congressional investigations -- eight or nine since 1945 alone. The easiest way for an American





congressman or senator to get his name into American papers is to make some statement - any statement - about newsprint. There is a certain cheap and easy appeal in proposals to make the United States more "self-sufficient" and "independent" of foreign suppliers. These arguments are based on nostalgia for a simpler past and an economic isolationism which still persists despite the abandonment of political isolationism in the United States. And they have not been without tangible results in the past ten years. A great proportion of the new newsprint capacity of the United States in the last few years has been the result of special tax concessions and depreciation allowances granted by the U.S. government to promote the development of domestic newsprint production. Such devices, unavailable so far in Canada, could be used again to accelerate newsprint developments in the United States.

Of course, these political influences cut both ways. The controversy and turmoil surrounding the newsprint business, which may make the United States a less attractive market for Canadian producers, may also cause a potential U.S. producer to turn to equally profitable but less nerve-racking forms of pulp and paper production. The world's undoubted need for wood fibre may make Canadians and Americans alike hesitate before subjecting themselves to unbridled abuse from publishers and politicians in both countries, especially as they have no hope of ever making an undistorted answer to the public; they can easily choose some other lines of endeavour within the pulp





and paper industry.

At best one can hope that the adverse and favourable political factors will cancel each other out. Against the turmoil and controversy, can be set the undoubted values to both the Canadian and American economies of the trade in newsprint between the two countries. It is Canada's largest export item in trade with the United States. It provides one out of every four U.S. dollars available in trade to Canadians for the purchase of innumerable products of other American industries, which Canada needs. It is the mainstay of the largest export market for American goods in the world. Perhaps a realization of these national issues will persuade responsible people on both sides of the border to leave the supply of newsprint in the future to the forces of economics. In that competitive struggle, Canada has some advantages from experience and developed skills in the manufacture of newsprint and in any event, in an even economic contest, Canadian producers are prepared to take their chances.

We also noted in trying to translate these random comments into a projection of how much U.S. market we are going to get in the future, taking the known U.S. capacity increases into account and the known production, we estimate that by 1960 U.S. mills will supply 1,850,000 tons to the United States or 26 percent of U.S. demand, -- that is slightly higher than it has been in the past and than it is now --- 26 percent it will rise to because of



this new building. By that year we would expect to have pretty free supply and we then assume that economic forces will determine the future shape of the U.S. market and we assume that that 26 percent supplied by U.S. mills will continue through to 1980. The results of Table 14 which end up with requirements on Canada for the United States of 7,620,000 by 1980.

For the exports to the rest of the world, the results there are even more difficult to come by because we have not only the problems of analyzing their different economies but also the problem of monetary and exchange difficulties. Undoubtedly there will be need for North American newsprint in the rest of the world. As the principal limiting factor in these other countries is shortage of wood and that is in the species and location to make newsprint, and there is competition even fiercer than in North America from other products, for the manufacture of other commodities.

Actually in recent years -- at the top of page 37 -- newsprint has lagged in this competition; non-paper pulps, finer paper grades and packaging materials have risen more rapidly than newsprint production in the established industries of the United Kingdom and Scandinavia.

We projected a rise from the present 1955 level of consumption in the rest of the world of nearly 6 million tons to over 14 million tons in 1980. It seems reasonably certain that available force and capital resources in the rest of the world will not be able to provide for an increase of this magnitude in domestic





production. If, then, prospective overseas requirements are to be met, these countries must look increasingly towards North America as a source of supply.

We have made projections much as we did the actual projections of total demand. We made these by regions and have shown them all together and the results are shown in Table 15 on that page. They do indicate a required import of over 4 million tons of newsprint from North America, the only two countries outside the orbit, and there seems to be a good deal of indication in recent statistics that the demand and effective demand is rising.

We make the assumption that the United States industry will continue approximately its present distribution pattern of 88 percent going to the domestic market and 12 percent exported to other countries -- which incidentally is just about the same percentage of the Canadian production that is exported to other countries.

It leads to the figure in the bottom corner of the page from Canada requirements of 3,830,000 tons of newsprint for the rest of the world rising from 725,000 tons now.

So that putting these all together on prospective requirements of Canadian newsprint on Table 17 on page 39 we see on the right hand side the totals 6.2 million this past year rising progressively to 12,500,000 tons by 1980. That is more than a doubling of shipments to Canada over the next 25 years, a 25 percent increase in shipments to the United States and reflecting the large overseas demand potential, better than a five fold increase



in shipments to other markets. In all, a doubling of Canadian shipments and therefore a doubling of production needed to meet these requirements. It is a long way to say we are going to produce twice as much in 1980.

Now, we do the same thing --

THE CHAIRMAN: Would this be a good place to have a break for a few minutes?

MR. FOWLER: I am afraid you must be exhausted and I would not mind one. Thanks very much.

THE CHAIRMAN: We will have a recess for ten minutes.

--- Recess



--- After recess

THE CHAIRMAN: Shall we come to order?

MR. FOWLER: Mr. Chairman, the newsprint exercise is the most complicated and difficult of any. I think the other pulp and paper products may be dealt with more briefly. But I would like to go through the general comments on pages 41 and 42.

First of all, these other groups, including book, writing and groundwood papers, paperboard, wrapping papers and tissue and sanitary papers and so on, we usually think of this production as being rather small, but in fact they make up a very sizable industry in themselves. Except for the comparison with newsprint and pulp the industry, as I have said, is a large one. The total is 1,650,000 tons in 1954, and the production, as the table shows, is expanding rapidly. You will note that the index figures run down from 100 in 1939, newsprint is 189, market pulp 309 and other grades 245, so newsprint has tended to lag behind in the competitive rate with other products for the productive facilities.

By far the bulk of this production goes to the domestic market. Of the 1-2/3 million tons in 1954, only about 138,000 tons were exported and a good chunk of that was groundwood writing papers which are near-newsprint grades which are so classified going to the United States mainly for the use of the newspapers themselves.

I think throughout this discussion of other grades of pulp and paper products the distinction between free-traded and tariff-protected commodities





should be kept constantly in mind. Newsprint and market pulps (which will be discussed later) move in international trade in response to effective demand and rarely encounter tariff barriers. For Canada the volume of trade in these commodities has become large, mainly because they had no foreign tariffs to surmount.

For other pulp and paper products, against which other countries have generally high tariff barriers, the development of these segments of the Canadian industry has been determined almost entirely by the domestic market in Canada. Mills making these products have been unable to reach the large volume markets of the world - particularly those in the United States -- except sporadically when demand was very high and customers were willing to pay for the tariff costs as well as for the price of the product. Canadian manufacturers had to equip themselves and operate to produce a large number of different grades, weights and colours in short runs, and to ship them at higher transportation costs in an east-west movement to supply the Canadian market. I think within those limitations, these segments of the industry have successfully lowered their costs and increased their efficiency. But substantial cost disabilities remain by reason of the nature of the market on which they depend. In contrast with manufacturers of these grades in the United States, these mills in Canada cannot generally get the cost advantages of long runs and mass production methods. For example there are nearly 500 grades of



book and writing papers manufactured in Canada; the average manufacturing run of boxboard is about 11 or 12 tons. In the United states, by comparison, a writing paper mill may produce only eight or ten different grades in very large volume; a paperboard machine may run continuously on only one grade, all the time. When a machine is changed from one grade to another, there are substantial costs incurred in both idle time and the cleaning and start-up of the machine. Those "make-ready" manufacturing costs are virtually the same for a 25 ton order as they are for a 2500 ton order, but the cost per ton is one hundred times as great. Another factor, disability for Canadians, is that Canadian mills do not generally operate on Sundays, but in the United States the majority of the mills operate continuously seven days a week. The extra tonnage gained by Sunday operation reduces overhead charges and mill burden per ton of production by at least 10 percent. For these other pulp and paper commodities, Canadian production is tailor-made to meet actual orders received. They have certain standard grades, weights and colours, but they must produce these particular grades against orders received rather than to produce for stock.

Yet, Canada does need these other segments of the pulp and paper industry to service a growing population with the multiplicity of products a modern industrial nation requires. The experience of the war years and some of the shortage years since has shown that Canada cannot rely on United States mills as a source of supply for these products, which were





in short supply in the United States. Even in times of no international emergency these are the types of product that Canada should produce for herself, without increasing further the adverse balance of trade with the United States.

The Canadian tariff does give substantial protection to the manufacturers of these other pulp and paper products. These tariffs have existed since the infancy of the industries, but while they can no longer be classed as young or infant industries, the cost disadvantages created by the nature of the markets they are compelled to serve, remain, and are substantial.

Experience with tariff reductions under the GATT agreements suggest that percentage cuts in the U.S. tariff had little or no effect in opening the U.S. market to Canadian producers, but similar forms of reduction in the Canadian tariff permitted expansion of imports into Canada from the United States. This is the result that would be expected from the different forms of the industries in the two countries - one an established mass-production industry, the other a small-run, tailor-made type of production. A "creeping" reduction of tariffs on these commodities is likely to increase imports into Canada without compensating increases in exports by Canadian mills. Even if present tariffs could be mutually reduced to a level of say 5 percent, that level in the U.S. tariff would still be an effective barrier to a Canadian industry which is not equipped to take advantage of mass-production methods. But the same level in the Canadian tariff would not be sufficient to



exclude a relatively small extra tonnage added to existing long runs in U.S. mills. These U.S. industries are already geared for mass production, they can easily or at low cost add extra tonnage for export to Canada, or in periods of temporary U.S. surplus can dispose of part of the surplus in Canada, - not only can but do.

It is believed that the experience in newsprint shows that Canadian mills making other pulp and paper products could gain a place in the U.S. market under conditions of permanent free trade in both directions. It would mean the complete reconstitution of these segments of the Canadian industry from a small-run, multiple product industry shipping east and west, to a long-run specialized industry shipping a few selected grades north and south. In such a process there would no doubt be some casualties and some new entrants into these segments of the industry and the result might be both larger exports to the United States and larger imports of American commodities into Canada. The final balance of advantage or disadvantage is impossible to predict. I hope I don't sound too cynical, Mr. Chairman, but I say this is no more than a theoretical exercise.

THE CHAIRMAN: It does not sound very cynical.

MR. FOWLER: Present powers and attitudes of United States commercial policy don't give any reasonable hope of the establishment of free trade in other commodities. They are limited to relatively minor tariff reductions and even if tariff barriers could be





removed there is no way to guarantee that free access to the U.S. market would be maintained in the face of minor and temporary threats to U.S. producers. To attempt to reconstitute present Canadian industries to service a portion of expanding U.S. markets would be a hazardous undertaking, under present and foreseeable commercial policies in the United States.

Accordingly for these other commodities the emphasis in the discussion that follows will be on trends of the Canadian market. We will assume that Canadian tariff policy will take account of the differences in costs arising from the different forms of these industries in the two countries and that it is reasonable to expect that these segments of the pulp and paper industry will be able to capture and hold virtually the entire Canadian market as it grows. That growth will be measured by available estimates of increases in Canadian population and gross national product. As to exports we will simply make the rather rough assumption that the proportion of total production exported will not be greatly different from what it is today. My guess is conservative - there should be a greater expansion of exports than that would indicate.

Then taking the various commodities and merely giving you the final results, Book, Writing and Groundwood Papers are described in some detail as to what they cover, what their history has been in Table 20 to give a projection through to 1980 as 634,000 tons required for these grades as compared to 270,000 tons in 1954.





I might just touch one point in that section at the bottom of page 46. It has been pointed out there has been a lag in the Canadian per capita consumption of these book and writing grades as compared with the United States, and I point out that the effective existing tariff provisions may be one explanation of this fact. We made certain tariff concessions at Torquay in 1951, under which papers for the use of Canadian magazine publishers were made free of Canadian tariff duties. In the United States it is a mass commodity a substantial tariff barrier made up of combined specific and ad valorem rates and continues to apply and effectively presents access to the large U.S. magazine paper market by Canadian mills. In addition, printed magazines enter Canada duty free and the volume of magazines thus imported for Canadian use is substantial. In other words, we don't even supply our own domestic usage of magazine paper which comes in in the form of duty free entry of American magazines printed in the United States and on American paper.

In 1952 it was estimated that this tonnage totalled nearly 45,000 tons. This Canadian consumption of magazine paper cannot, in practice, be supplied by Canadian paper mills for Canadian use. In theory there are drawback provisions in the U.S. tariff to recapture most of the tariff paid and later re-exported to Canada but in practice the administrative procedures and customs procedures of the United States make it extremely difficult or impossible. We found it took about three years to get your money back on the drawback and that



tied up quite a bit of money. Until some easing of these U.S. restrictions or a greatly expanded printing in Canada of Canadian editions of American magazines takes place, an important portion of the domestic market for magazine papers is effectively closed to Canadian mills.

THE CHAIRMAN: What specifically do you suggest there, Mr. Fowler?

MR. FOWLER: Well, I think that one way would be to allow a reasonable and prompt repayment of drawback. I think many United States publishers would be quite prepared to buy Canadian paper for their Canadian circulation if they could do it and get their tariff payment back promptly and reasonably with any ordinarily efficient procedure. The other alternative is that as the circulations grow, I would like to see more American magazine publishers do their printing in Canada.

THE CHAIRMAN: How would you encourage them to do that?

MR. FOWLER: Well, I don't know that we should continue this duty-free entry of American magazines forever. I must say that is not an accustomed role for me to play.

THE CHAIRMAN: That is what I was hoping, to be able to see if I could persuade you to step into an unaccustomed position for a moment anyway. I am sorry if I made you feel uncomfortable.

MR. FOWLER: I might say this, Mr. Chairman, that I am quite agreeable, on the general question, we come to that a little later on, to see Canada play this





game with whatever cards we have in our hands.

MR. GUSHUE: Could we just revert for one moment to your Table 19 on page 45. I take that is tons also? It is not indicated.

MR. FOWLER: Yes, it is in tons. Both production -- it is pounds per capita, I think, and tons. I am sorry, that should be there. Thank you, sir.

MR. GUSHUE: Pounds per capita?

MR. FOWLER: Yes, pounds per capita.

MR. FUSHUE: Tons otherwise.

MR. FOWLER: And tons for the first four substantive columns.

MR. GUSHUE: Yes.

MR. FOWLER: Is there anything else on that table?

MR. GUSHUE: No, it was just that question.

MR. FOWLER: Paperboard, to give you the highlights of that, there is quite a description of what it is used for and possible new uses and growth in per capita usage in Canada which lags behind the United States also. The results are in table 21 on page 48. The estimate is for about 1,911,000 tons in 1980 as compared to just under 800,000 tons in 1955.

We come at that by two different methods of forecasting -- those are just the Canadian requirements -- I am sorry, I am at the wrong table here. The total production requirements including the item for export is in table 22 on page 49, which leads to 2,180,000 tons as the estimate and the figure I gave you of just under 800,000 applies to total 1955 production.



Now this next bit on Building Boards and Building Papers - it was a debatable question as to whether we should include it at all or not. We do not, in the Association, deal with building boards and building papers but because pulp is used to some extent in the production of these grades for accuracy in covering the field of pulp and paper products, it was thought it would be wise to put it in. But we do point out that it is a pretty rough and ready method of projecting and we think that your own estimates of construction trends might be a better test to lay alongside these figures than the ones we have used. However, there they are for what they are worth.

In Wrapping Papers at the beginning of page 50, we get to the projections at page 52, and I want to say that in going so quickly through this there is historical and descriptive material on these other commodities which took a good deal of time to produce and there is an important segment to produce it, and I don't want just to ignore them by skimming over them in this way. But the result is in Table 25, the production of wrapping papers is just over a quarter of a million tons in 1955 and up over half a million tons, we estimate, by 1980.

The same kind of thing for Tissue and Sanitary Papers, the table on page 53, the 1955 figure is 106,000, and we think it will go up to just about double, 203,000 in 1980. There are not any exports or imports of any significance in that.

Now the next one is rather a tough one to





outline, and rather a complicated one to try to cover. It deals with Woodpulp and deals, at the outset at least, in the market woodpulp, the thing I spoke of before as including the export of pulp as such plus the domestic sales of non-paper pulps, such as dissolving pulp. We do not include in this section the pulp sold in Canada for conversion into papers and bags, which would mean a double counting if we put them in.

In Table 27 there is a fact history of the woodpulp market, the woodpulp export history -- over the years United States has taken 80 to 90 percent, and in the United States market this may be important. That market in the terms of pulp usage has grown enormously in the last ten or twenty years. But most of it has come from integrated operations in the United States. The actual totals of pulp imports have not changed greatly and what has happened, there has been a shift in the source of supply. From it being predominantly Scandinavian pulp which is imported, it has become Canadian pulp, and therefore the Canadian picture has risen rapidly, and in totals we have gone up. We have taken the detailed studies made by the Stanford Research Institute as to the pulp and paper business for the Weyerhaeuser Timber Company. They estimated through to, I think 1975 only, increases in U.S. imports of pulp by about a doubling of the 1954 totals. They have estimated the Canadian pulp export to the United States might be 3.7 million tons in 1980 compared to 1.7 million tons in 1954.

The second largest pulp market for Canada





is the United Kingdom. That is on page 56. We also analyze the European situation, that is needs and availability and probable course of production; and taking the U.K. and Western Europe together we think that by 1980 that area will require from Canada about 575,000 tons more of pulp than it took in 1954. But when that has all been done, there will still be very severe deficiencies of pulp in Europe, which could increase Canadian exports beyond that figure, by as much as 2 million tons more. There actually is going to be, judging from availability and machine capacity and wood that they can get, a very serious shortage even taking into account the amount we have allowed in our figures for exports to that area. It could be much larger.

We have also analyzed other markets - Commonwealth, South America, Asia and Africa and also the dissolving pulp market in Canada at pages 57 and 58. The whole analysis is joined together in tables 28 and 29 on page 58, and it leads to an overall result that Canadian market pulp so defined, as used here, will be over 5 million tons by 1980 as compared to  $2\frac{1}{4}$  million tons in 1954. I think that is a very brief summary of the thing, and we come then to recapitulation of total pulp and paper demands.

The results, we do point out, are of varying reliability, uneven quality of projections - I don't even know if we should call them reliable at all when you are going forward a quarter of a century - but with all those uncertainties and limitations, Table 30



on page 60 contains the recapitulation by commodities, all in one place at least. Calculations converting these tonnages into woodpulp and pulpwood requirements have been made at five-year intervals throughout the period 1960 to 1980 and those appear in Table 31, which after all gets you down to some kind of common denominator. And the woodpulp equivalent means that productive capacity of woodpulp would have to be brought from just under 10 million tons to nearly 21 million tons. Pulpwood in cords, that is cords of pulpwood, will go from just under 13 million usage in 1955 to a requirement of just over 27 million cords in 1980.

MR. LUSSIER: Is it cords or units?

MR. FOWLER: It is cords.

MR. LUSSIER: Thank you.

MR. PEPLER: Actually thousands of cords is the word but you read it right.

MR. FOWLER: Yes, these are thousands of cords, that is right, and it is cords, Mr. Lussier.

So this is a doubling of capacity, actually 110 percent increase, of total woodpulp capacity and of pulpwood requirements in the next 25 years. Relatively this increase is smaller than has been achieved in the past 25 years. Between 1921 and 1955, total pulp production rose from just over 4 million tons to an estimated 9.9 million tons, a gain of almost 150 percent. But in tonnage terms, the projected increase exceeds all past periods.

If wood-pulp production is to reach 20.75 million tons by 1980 it means about 430,000 tons of new





pulp capacity will have to be added, on the average each year. Precisely this rate of increase in production has been achieved in the ten years since the war but there is an important difference. Between 1945 and 1946 production rose by one million tons but much of this increase came from capacity which had been kept idle during the war years because of manpower and material shortages. With the industry now operating at full capacity, future expansion must all come from additions to plant and equipment.

The addition of over 10 million tons of capacity, plus new machine capacity to convert the pulp into newsprint and other pulp and paper products will impose heavy demands, in terms of manpower, capital and wood requirements. From our woodlands, as the figures above show, the industry of 1980 will require an annual pulpwood crop of over 27 million cords, as against about 13 million cords in 1955. That is the next section, the ability of the Canadian forests to supply that demand.

Now I do want to make the point here that in this one we want to be as tentative and preliminary as we can because we know that you on the Commission are conducting detailed studies of Canadian forest resources and future demands for wood by all the industries dependent on them and those studies will be more complete and the estimates of the future more reliable than anything that a single industry could produce. We did feel, however, that the submission would be defective if we did not make the attempt, tentative and rough though it might be, to estimate whether or not Canadian pulpwood



resources are capable of providing the substantial increases in raw materials needed to meet the estimated future demands on Canada for pulp and paper products. The conclusion is they can do so - that Canadian production need not be limited by lack of pulpwood supplies -- provided that adequate forest policies are adopted by Canadian industries and Canadian governments and effectively implemented.

We are going to discuss those policies in a later section of the brief but it again is subject to the results of your own Commission studies.

Going back to the 27 million cords estimated needed by 1980 as against  $12\frac{1}{2}$  to 13 million cords, something in the order of 15 million cords extra is required.

Before attempting to set down an estimate of how present supplies of pulpwood can be more than doubled in the next 25 years, I would like to state certain facts. In the past, Canada has operated her forest resources in an atmosphere of adequate and even super-abundant wood supplies. Only in recent years has there been any thought that a shortage of wood was possible. Inventories of total wood resources are still sketchy and complete inventory details are non-existent. Appraisals of growth against drain have been local only, and served to do no more than indicate at the times they were made an over-all ability to meet requirements. Any appraisal of net increment potentials has to be made in general terms and by arbitrary estimates based on inadequate statistics.





Complete and concrete figures are simply not available. That is a pretty important point; we need more in terms of facts and figures because we have moved away from the period when we had any amount of surplus assets to a time when we have got to watch the assets we have.

By the simplest calculation we can make and it is a very rough and ready one and was done for a special purpose to which I shall come in a moment -- we have 200,000 square miles or 128 million acres of forest land under lease or privately owned for pulpwood purposes in Canada.

The experience in Sweden -- they have grown at 3/10ths of a cord per acre in managed forests of large area. Here in Canada over considerable tracts, the Dominion Forestry Branch has shown growth between 3/10ths and 5/10ths of a cord per acre per year. Specific studies in the Lake Edward area over a 30-year period show an average of .42 cords per acre per year, and in the upper Lievre River over a 10-year period, an average annual growth of half a cord per acre per year. Both of these specific studies were made in pulpwood forests. On the other hand, we know that there are large areas where repeated forest fires have destroyed the capacity of the land to produce for at least a tree generation. Taking all this data into consideration, we believe that even over such a vast area as that of our pulpwood forests, a realistic objective would be an average growth of 2/10ths of a cord per acre per year and if you put 2/10ths of a cord per acre per year to 128 million acres you get 25,600,000 cords of growth which is practically





the total requirement of the 27 million cords, and this only from the leased or owned lands of pulpwood now used.

The word "objective" is used advisedly because the achievement of the growth required is not going to be automatic. There must be co-operative effort on the part of the general public, the government, and the forest industries and we shall make some recommendations along those lines in a moment.

This first calculation of a possible source of supply for the pulp and paper industry in the simple form it was used, is made to emphasize one fact that as we move from the exploitation stage of forest operation to the management stage, it is the capacity of the land to grow forest products that will govern our ability to provide raw material for the forest industries and not the capital volume of wood we have now standing on the land.

It needs emphasis because, until now, appraisals of Canada's forest resources have used as basic data, only forest inventories of existing stock and an interest rate of growth based on the volume and age of the virgin or unmanaged timber. In our appraisal of resources for future consumption, we must take into account the capacity for growth of cut-over areas and areas not now productive. You see, what is done now is, they go and look at the area in the forest and there are so many trees there and they calculate how long it took them to grow there. We say that if you are in a managed forest you must calculate what the growth rate is in order to ascertain how much you can



take for use. Trees grown on these areas will be grown under at least some measure of management and therefore under different conditions than our present virgin stands and with a different growth rate. Whether or not the rate is higher, will be dependent on what the forest manager does about it. It will also depend on whether the rules and regulations and the tax structures provide an incentive. Experience to date proves that an annual net increment considerably greater than that which produced the original stand is obtained when forest lands are brought under even the crudest form of management. We have a few outstanding examples of continuous management on a commercial scale. Those indicate that the allowable cut can be increased to as much as  $3/4$  of a cord per acre per year in 20 years.

I must say, Mr. Lussier, I must apologize for appearing to talk as much on forestry to you.

At the present time, the sources of pulpwood supply - 1955 that is -- to this industry are approximately as follows -- and this is the top of page 65.

Industry owned and licensed lands,  $8\frac{1}{2}$  million cords; Farm and settlers' woodlots 2.6 million cords; large private holdings and sawmill waste 1,400,000 cords, making  $12\frac{1}{2}$  million cords in all.

We think that each of these sources will continue to supply raw material to the industry in increasing quantities. And while we know there are many risks in this kind of gain, an attempt will be made to suggest how the various sources of pulpwood could provide the additional 15 million cords required annually by 1980





to meet estimated demands for the products of the industry.

It is most unlikely that this suggested breakdown of supply by sources will actually occur. For each source, the figure used is only a part of its potential and undoubtedly some will go ahead faster and others slower. But we do believe that the estimated potential from each source is reasonable and realistic without taking into account any revolutionary forestry developments such as the use of fast-growing hybrids or of growth stimulators.

In summary form, the break-down of how an additional 12 million cords could be provided is as follows: It is broken down into various bits and pieces and each of those items is more extensively discussed in the following two pages.

More complete use of material -- there is a lot of material left in the bush now of which some portion can be reclaimed. Half a million cords there.

Use of new species - this is certainly coming - 2 million cords there.

So on through the other ones in that first section.

Private holdings, mainly the farm woodlot and the great importance of the farm woodlot is the most productive form and most efficient form of supplying wood for pulp and paper production - it certainly could go up a million and a half cords.

Reduced fuelwood use -- another one -- actually the estimated fuelwood use in Canada is on the



order of five to ten million cords. We think that will tend to go down and that wood can be used for pulp and paper manufacture. We have taken only a million of that amount in.

And then of course, new limits -- unused areas now in Canada will have to be opened up. What it really all amounts to is not a prediction of what is going to happen in the next 25 years; it is merely a statement of one possible way that the indicated wood requirements could be met, in each case using only a portion of the potential from each source, and a relatively small proportion in some cases. Nor is it a statement -- and I want to make this clear -- of the limits of possible supply from each source. This breakdown is therefore not setting any limit to the growth of the industry even by 1980. I think it can grow beyond those levels if demands on Canada for pulp and paper products continue to expand. And we will get to the policies and practices in a later section.

Now, coming to Section IX, we have here most of the recommendations in the brief. I think I would like to go through this fairly carefully, Mr. Chairman, certainly the general comments in the first section.

Up till now we have come to a prospect that this Canadian industry will have the opportunity of doubling its physical volume of production in the next 25 years; that in 1980 it can have demands upon it for twice as much as it produced in the record year 1955. Our studies indicate that the necessary raw





materials to sustain this doubled production can be provided by the forests of Canada without exhausting our reserves of wood or impairing the capital assets in natural resources of future generations of Canadians.

How can such a growth be brought about? What can be done by conscious policy to assure that the opportunities available to this industry will, in fact, be realized. What should the industry itself be doing, and what should Canadian governments be doing about it?

In the first place, it may be important to recognize the limits within which any policy, private or public, must operate. Within those limits, the choice of policy is vitally important, and may well determine whether the opportunities will be realized or whether the great chances will be missed. But there is more likelihood that policies will be wisely chosen and sharply focused, if it is recognized that the range within which any deliberately adopted policy can have practical influence on results is probably quite a narrow range.

The growth of an industry, and indeed the growth of a national economy, are influenced by underlying forces of great strength. Development must be built upon the economic foundation that already exists.

Growth in the next 25 years will be influenced by the continued application of those economic forces that have shaped growth in the past, and particularly in the last ten years. These facts of economic life are special for each nation; they are not the same





for Canada as they are for the United States, or for the United Kingdom. We have our unique economy to deal with and we must find our own special solutions.

Canada is today a nation of sixteen million people with the second highest standard of living in the world. That standard of living is dependent, to an unusual degree, on a high level of international trade. It has been brought about by one fact and one fact only - namely, that the rest of the world needs our natural resource products. The Canadian boom of the last ten years has been the result of rising populations, higher living standards and the growing inadequacy of domestic raw materials in other countries, which have caused them to turn to Canada for what they need. This is true for pulp and paper, and it is true also for iron ore, base metals, electric-power in the form of aluminum and many other products.

We cannot dictate what other countries will want to buy from us. We can do little to influence by conscious policy the general pattern of our export trade. That pattern is a remarkably constant one. Thirty-five years ago 87 percent by value of our exports was accounted for by grains, fish, minerals in raw or semi-processed form, lumber and similar wood products, pulp and paper, bulk chemicals and similar bulk, raw and semi-processed materials. In 1938 the proportion was 86 percent. In 1954 it was 85 percent. This pattern is no accident. It rests upon certain hard, inescapable facts. These are the products our customers want. These are the products we are best able to produce. In the years ahead,



these will continue to be the products our customers will want, to an increasing degree, and these will also continue to be the products we are best able to produce.

If these conclusions are correct, a national policy which sought to restrict the development of primary industries, in order to build up secondary industries would lead only to disaster for Canada. We cannot place an embargo on iron ore and compel other countries to buy from us steel shapes and sheets; we cannot forbid by government decree the export of pulps, and force other countries to take our fine papers, paperboard and wrapping papers. They can, and will, turn elsewhere for the raw materials they need or find alternative materials to maintain their industrial production.

For the Canadian economy as a whole, it is the development of our great primary industries that provides, and must continue to provide, the basis of our prosperity and growth. Secondary industries are coming and they will come, naturally and economically, to create a varied industrial complex around the primary industries and particularly to meet the needs of our own growing population. But to push them artificially, by an attempt to limit primary production is to limit what we can do best and to depress the living standards of Canadians.

I suggest it is unlikely that Canada's economic development will follow the classical progression from primary to secondary, to tertiary or service industries. Indeed, the attempt to apply the classical tests to particular forms of production frequently breaks down or leads only to confusion. Is the manufacture of





newsprint a primary industry or a secondary? If we manufacture fine papers only, or mainly, for our own domestic needs is it a secondary industry or really a service industry? The exercise of directing industries into these three categories is an inconclusive operation of dubious value. In broad terms, the choice for Canada has apparently been made. Because we have had a relatively free economy in which supply responded to demand, we have elected to put the emphasis on primary forms of production. We are also developing industries -- whether they are called secondary industries or service industries -- primarily to meet our domestic needs for fabricated products. Occasionally a manufacturing industry will develop to a point of efficiency that it can move into world trade on favourable terms in competition with other countries. It can be said, further, that some price, in the form of tariffs and higher costs, can properly be paid in the interests of creating a rounded and balanced economy.

But the price should be recognized and should never be allowed to become too great. If the main emphasis for Canada is to be on her great primary industries, our national commercial policy must pay major attention to those industries -- not from any favouritism towards them, but to achieve the maximum economic well-being and growth for Canada as a whole. Indeed, if our objective was only to attain the maximum gross national product possible by 1980, it is probable that national policy should go all out to promote and develop our primary natural resource industries. Demand



seems likely to be able to take all we can produce and, if we drive shrewd, tough bargains in our international trade, we should be better off twenty-five years from now in a strictly economic sense.

But economic considerations are not everything. There are social and regional and political factors to be taken into account. In the past we have fostered secondary industries and the many thousands of Canadians dependent on them probably could not be quickly absorbed in an expansion of our primary industries. I come to something on population a little later. Most important of all, we still<sup>have</sup>/the problem of building a strong balanced nation out of a geographic area that in theory makes no sense at all. Accordingly it seems right that Canada's economic policy should not be governed exclusively by the needs of her primary natural resource industries. They can reasonably be called upon to pay some price for the maintenance of secondary industries and for the building of a strong Canadian nation.

That price, however, is paid in two ways. First, our tariffs and other trading obstacles reduce the buying power of countries for our export commodities. The simple rule still holds - other countries cannot buy from us unless we buy from them.

THE CHAIRMAN: Does that simple rule still hold? What about the United States?

MR. FOWLER: Well, unless you are prepared to give it away. I guess that is right, it doesn't apply there -- you are perfectly right. But they make up the account in other ways. They prefer rather than getting goods to give money apparently.





THE CHAIRMAN: Yes. I am sorry. I didn't mean to interrupt.

MR. FOWLER: No. I don't think it is a feasible alternative for us but I do think you are perfectly right in the qualification. There is the other method. It strikes me as a grossly expensive way of doing it, but it can be done that way.

The second price to be paid, there is an impact on our export industries in higher production costs. There are many raw materials, machines and equipment required by our export industries, and if foreign supplies must surmount a tariff or higher cost domestic supplies are used because of a tariff, these tariff costs must find their way into the price levels of Canadian exports. While our export industries have had cost advantages in world trade, the margin of advantage is shrinking. Labour costs are now virtually the same as those in the United States; power costs are still somewhat lower but new power sources are developing; capital costs of new construction and machinery are generally higher and transportation costs are substantially higher in Canada.

If we need to maintain high-cost industries for reasons of national development or national security, we should constantly consider the price of doing so and especially the influence on the costs of our export industries which are the main sources of our prosperity. And in the years ahead this is not going to be easy; it is always easier to see the immediate difficulties of a domestic industry faced with foreign competition and to





consider the political and humanitarian appeals of a group of Canadians whose investments and employment are threatened by that competition; it is much harder to see and measure the less direct, slower, but in the long run more important damage to the Canadian economy if our export industries undergo a creeping rise in their costs which will make them poor competitors in world markets.

In fact there are few, if any, commodities of which we have any monopoly of world trade. There are other countries who are actual or potential competitors for the business. This is not the only country that can make newsprint, as the growth of mills in the southern states and in New Zealand shows. Probably other countries could make aluminum if our costs and prices got too high. Even for a commodity like nickel, where we have a virtual monopoly of the known deposits of that mineral, substitute materials could no doubt be found if our prices became excessive.

The next page we get to a bit on population. If Canadian policy is to support the growth and development of our primary, natural resource industries in response to probable world demands for these products it has certain implications on our population growth. These industries do not add employment opportunities in proportion to their rise in volume of output. A doubling of total pulp and paper production in the next 25 years would not double the total of about 65,000 now employed in existing mills. It would probably mean something closer to 20,000 extra



jobs, directly in the manufacturing side of the industry, with some more for the larger pulpwood production and for the servicing of this expanded industry.

Now the question arises as to the proper basis for a population and immigration policy and it is suggested that any specified figure for the Canadian population at any future time is not a valid goal of such a policy. The Canadian population in 1980 should be a result of sound economic policies not an objective in itself. Canada may well be better off to have 25 million people in 1980, gainfully employed in profitable enterprises and with high standards of living, than to have 30 million people busily engaged in taking in each others washing.

Admittedly, it is tempting to look to the example of the United States, where vigorous immigration policies in the early years of this century built up large domestic markets for rapidly expanding U.S. industries. But what was a feasible and successful method of developing a rich economy in the first half of the 20th Century in the United States is not necessarily applicable in the second half of the 20th Century to Canada. Our economy today is not even roughly comparable to the U.S. economy in 1900. Canada has used the past 50 years to build up a different type of economy, with the result that we have today a relatively small population with high living standards and an economy heavily dependent on international trade in natural resource products. Canadians would not, I think, be willing, to reduce their present standards of living





to the levels of U.S. living standards in 1900 to allow us to try to duplicate the U.S. pattern of growth. We must find our own pattern of growth adapted and suited to the situation in which we now find ourselves.

It is a question of where the emphasis of national economic policy would be placed. It is suggested that the real dynamic factor in our growth in the next 25 years should be, as it has been in the past, the vigorous development of our primary resource industries which should be able to obtain access to world markets on increasingly favourable terms due to our strong resource position, relative to that of other countries. This pattern of growth will come naturally through the operation of existing economic forces, unless we unwisely adopt a national policy that seeks to hoard our natural resources and force the growth of secondary industries by artificial means. Any such attempt is likely to produce industries that are uneconomic and unable to stand on their own feet, with constantly rising demands for increased tariff protection and increasing costs for Canadians.

Coming now to the degree of processing, the economic gain to the nation is not accurately measured by the arbitrary test of the degree of processing from raw material to finished product. There are also matters of efficiency and of availability of markets to be considered. It may well be better for us to concentrate on producing aluminum ingots than to attempt to produce a wide variety of pots, pans and bathroom fittings for the Canadian market. There may be more value derived



from our resources, if we exchange them with other countries for commodities that they can produce efficiently rather than to attempt to produce those commodities ourselves - by selling newsprint and pulps, in exchange for American machines, Swiss watches or British textiles. If the degree and extent of manufacture were the test, our motor car industry should produce nothing but Cadillacs.

In fact, the role of the producer of raw materials and basic commodities may have undergone an economic change that has not been fully recognized. Their relative place in the economic picture, and their economic power, may have been substantially improved by the increasing scarcity of raw and basic commodities throughout the world.

I apologize, Mr. Chairman; this is a favourite theme of mine which I thought I should impose on you.

THE CHAIRMAN: You are entitled to every consideration. Any themes that you are interested in you can put forward.

MR. FOWLER: Every trading dollar coming from the ultimate consumer is divided between the raw materials producer, the basic fabricator, the converter and the distributor in proportions determined by the competitive claims these various groups are able to put forward. Until a few years ago, the producer of raw materials and basic commodities has been in a relatively weak competitive position. Most raw materials were suffering from surpluses through the world and we had many international control schemes by which governments





sought to keep down production and share raw materials markets. It became popular to say "We don't want to be hewers of wood and drawers of water". The raw material producer and basic fabricator tended to be regarded, and to regard themselves, as somehow inferior. There was a scramble to get into the more profitable end of the business scale - the conversion of basic materials and the manufacture and distribution of end products.

Perhaps that thinking has persisted into a time when the relative economic positions of the various elements has basically and permanently changed. All over the world, as populations have grown and standards of living have risen, the surpluses of many raw materials have been transformed into shortages. No doubt surpluses will arise from time to time, but they are unlikely to last for long. The long-range trend appears to be one of mounting pressure on the supply of raw materials. If this is so, it may be a very good thing indeed to be a hewer of wood and a drawer of water. The economic advantage appears to be swinging in favour of the raw material producer and the basic fabricator. Their position and their rewards seem likely to grow, both absolutely and relatively. If this is so - if the bargains made are sound, advantageous bargains - there will be no valid basis for the charge that Canada is foolishly and improvidently "squandering" her natural resources - her primary products of forest, mine and farm - on exports to the United States and other countries. It is likely to be the best economic activity in which we can be engaged.





Therefore, it is submitted that the best national economic policy for Canada is to accept the fact that world demands on Canada will be predominantly for raw materials and basic manufactured commodities, and those are the activities in which we can be most profitably engaged. Secondary industries and services will come naturally and economically to supplement and re-inforce the growth of the primary industries but should not be forced, at the expense of our natural resources development. The demand for pulp and paper products (and no doubt for other natural resources) is likely to be great enough to call for special efforts - both public and private - to meet it. Within this range, the choice of policies by both business men and governments is vitally important. Both must recognize the scope of the opportunities that are open, in terms of available demand. Both must, individually and jointly, adopt policies that will assist in obtaining this available business for Canada. If they fail to do so, more is at stake than the additional business. If the demands are not met by Canada they will be met somehow by others. If existing and new customers are unable to obtain their requirements in Canada, they will become dissatisfied customers and will turn elsewhere. There will be built up in other countries, uneconomic or less economic industries to meet the needs for pulp and paper products and the result could be that Canada would not only miss the opportunities for expanded markets that are available but would lose some of the markets we now have.



We deal with some of these other policies, public and private, in the following sections.

In the case of Forest Policies, we require 15 million cords between 1955 and 1980. This problem is a pretty complex one; there are great differences in the degree of development of forestry practices in different parts of Canada, ranging from the one extreme of the intensively managed woodlot to the other extreme of the untouched virgin forest. Responsibility for forestry policies is divided constitutionally between the Dominion and provincial governments, with the primary responsibility resting with the provinces under their control over natural resources, but with the Dominion having responsibility for substantial areas of forest lands that it owns or controls and under the general powers over international trade. Within whatever government restrictions may exist, there is also a considerable range where the policies of private forest operators can advance or retard the development of sound forestry practices. This is a field where close collaboration between the federal and provincial governments and the forest industries is peculiarly important and can be unusually rewarding.

Stated most briefly, legislation and tax structures must be framed for, and industry practice must be guided by, the need of managing a living renewable resource. In the past, legislation and tax structures have been designed for a situation in which exploitation was the proper economic policy, and practice





has fallen in line with that thinking. New forest regulations must be drafted to encourage forest management and provide rewards for those who practice it. Money must be invested in forest lands and the investor must be given a reasonable chance of getting a return. In the past, forest regulations have mainly been designed to prevent wanton use of standing timber and to provide penalties for those who were responsible for losses or wanton waste. Forestry practices must be changed from a negative to a positive concept.

Increasing the yield on the forest lands of Canada is the prime objective of everyone. Although there is still much to learn about silviculture and sound forestry management, there is already sufficient technical knowledge to further this objective. But having the technical knowledge does not in itself produce results. It must be applied by industry and the application must be assisted by enlightened legislation.

Forest legislation in Canada was originally drafted for the purpose of public revenues and in the period when the forests could be exploited without fear of exhausting wood supplies. Much of the original legislation is still in effect, and laws and regulations have not fully kept pace with the economic changes that have taken place. The emphasis is still on immediate direct revenue from the forests rather than on the development of increasing indirect revenues through maintaining and expanding production.

Private operators must be subject to government regulation in their use of forest lands which



the public owns, and if the legislation is sound and enlightened, their compliance should not be a literal application of the letter of the regulations but rather with their spirit and underlying intent. Forest regulations and tax laws should offer incentives for the adoption of sound forestry practices by private operators. For example, if a property is assessed at a high value because it contains a good stand of timber, there is no incentive to maintain it in forest production if, without the timber, the same land would be assessed and taxed at a minimum value as wild or waste land.

This kind of suggestion involves cost for everyone - both governments and private operators. Investment is needed by the forest industries in roads, fire protection, research, and all the other aspects of a comprehensive forest management policy will be substantial. By their nature, these investments will only yield returns after many years and therefore they can only be justified if the forest operator has greater security of tenure of forest holdings than is now generally provided. For provincial governments, the adoption of laws and regulations designed to encourage forest management may well reduce immediate revenues from forest lands and additional direct expenditures in forest protection, surveys and research. Similarly for the Dominion Government whose current direct tax revenues from the forest industries are annually about \$200 million, while expenditures on the forests are less than \$10 million a year, it may be necessary to





forego some immediate revenues by providing tax incentives for the adoption of forest management by industry and to increase direct expenditures on research and the co-ordination of forest policies.

And finally here is public opinion. An informed public opinion is necessary and is now lacking. There are probably few undertakings that have so many amateur advisors, whose opinions are often largely based on sentiment. Such slogans as "Woodsmen, spare that tree" can be quite harmful. The notion of conservation for use rather than conservation as an end in itself is inadequately understood. Public consciousness of its interest in, and responsibility for, forest protection is growing, but the public can not be expected to become fully informed overnight. There is great need for public education as to how forests grow and are turned into employment and earnings, and also as to the contribution that the public can make to forest protection.

There is no lack of statements of forest policy by groups and organizations in Canada. Four of them might be mentioned -- the Canadian Forestry Association -- the Canadian Institute of Forestry's "Statement of Forest Policy" - our own Canadian Pulp and Paper Association and the Federal Government's "Wallace Report" named so because of its full title, "The Final Report of the Sub-Committee on Conservation and Development of Natural Resources of the Advisory Committee on Reconstruction".

These four reports are typical and





representative, and in all their essentials they are in complete agreement. Even more important, they are in agreement as to the priority of steps to be undertaken for action. The objectives against which the recommendations should be tested seem to us to be that the policy should be aimed at maximizing, in perpetuity, employment, income and cash returns from forest investment; the policy should also ensure watershed protection, provide recreational facilities and sustain wild life.

The first recommendation common to these policy statements deals with fire protection so that forests may become commercially insurable risks. That means the building of access roads for it is only in that way that protection can be achieved. Incidentally, apart from reducing or eliminating fire losses, access roads are essential for the development of forest husbandry which requires all sections of the forest to be accessible. Obviously, measures which reduce fire losses and damage are consistent with our policy objectives.

Secondly, forest inventories should be taken. They should not be mere statements of the capital stock but complete and continuing records of the growing stock, rates of growth, the capacity of the soil to grow trees and rates of depletion. Once set up, the forest inventory becomes something in the nature of an operating statement in which changes and revisions can be made periodically, reflecting changes in the forest content. This also serves the objective: we clearly must know in greater detail than we do at present, what



we have on hand, how much is going out and how much is coming in.

Then there is an important recommendation common to all these policies on the classification of land and the dedication of those lands to their proper use. This is largely a question of earmarking areas of Crown lands for agricultural or forestry use. It should not be assumed that any such attempts need to lead to extensive controversy among the various claimants for the use of the land. Particular areas are typically best qualified for particular uses: some for agriculture, some for nothing but forestry. Similarly, there are smaller acreages the primary use of which is watershed protection or recreation. In a high percentage of cases, the earmarking of land for its best use would be a clear-cut matter involving no controversy. This third recommendation is also consistent with our objectives. The primary function of the recommendation is to give a greater measure of stability and security of tenure to those who use these resources.

Finally, a fourth recommendation urges reclamation of denuded forest lands and rehabilitation of the private woodlot. Our best forest lands, closest to the mills and therefore in areas where roads, communications and other services already exist, are suffering from great neglect. One of the most attractive possibilities for real progress is available in the expansion of wood production on farm woodlots.

Competent foresters estimate that these





now yield about one-quarter of a cord per acre per year, but under proper forest management this yield could be quadrupled. Records already built up in the relatively short time that interest in woodlot management has been actively promoted in Canada amply support this conclusion. Data for a sample of six of these woodlots located in Quebec were examined at a recent symposium on private forest land management held by the Canadian Pulp and Paper Association. These data disclosed average annual yields of from  $3/4$  to  $1-1/3$  cords per acre per year for the four to eight years for which records had been kept. In general, the yields increased with the length of the records.

Those four recommendations, which were all that were mentioned, constitute a short-term programme about which there is general agreement and which needs to be followed vigorously and persistently.

The long-term programme should have as its objectives the development of forest research working plans, integrated operations and increased sustained yields. These present more difficult problems. Each is being worked on at the present time, and work will be intensified when the conditions under which forestry operations must exist are geared to a programme of development of resources.

In spite of the agreement as regards policies noted above, and in spite of the passing of the Canada Forestry Act which brought into being machinery for providing financial assistance to the provinces and others, and in spite of efforts of corporations and



and individuals to improve forestry practice, progress has been slow. This seems to be due in large measure to the complexity of problems with technical, legal, financial, political and popular aspects, and to a lack of co-ordination of the effort of the partners in the enterprise, the Federal Government, the Provincial Governments, the industry and the public. There is today no machinery for exchange between these partners of information, opinions, problems, solutions and progress.

The type of co-operation required cannot be attained without leadership, and it is suggested that the Federal Government has a particular function to perform in arranging for such co-operation. One possibility would be the setting up by the Federal Government of a National Forest Protection and Development Board. This Board could provide the leadership necessary. We had an excellent example of the usefulness of a body of this kind in the Forest Insect Control Board which was set up in 1945 and terminated in 1952 having served its purpose.

As we envisage it, a National Forest Protection and Development Board would function in an advisory capacity to the Federal Department of Northern Affairs and National Resources, and would be financed under their budget, though its counsel should be available to other Departments, particularly those charged with the administration of public lands. Although the Board would deal primarily with national problems, it would be available, if requested, for consultation with





provincial governments which are the sovereign authorities in regard to forest lands within their own boundaries.

Membership might consist of senior representatives from the federal and provincial governments, the pulp and paper industry, lumber industry and other wood industries. Through the Board there could be an over-all co-ordination of effort in forest protection and development, which is essential if we are to attain the maximum effective progress in this field on a national basis. By way of specific example, the Board could advise on priority allocation of requests to the Federal Government for funds under the Canada Forestry Act.

We express disappointment that the Canada Forestry Act has not been used to bring about better forest protection. It is difficult to understand why no funds have been made available to the provinces to assist their forest protection programme. We appreciate the excellent work done in assisting forest inventory work, but there would seem to be little point in inventory if wide-spread fires such as occurred last year are to be permitted to continue.

However, a Board of this kind would find its chief value and function in co-ordination. We already have wide agreement on policies and, therefore, the Board need not make policy. In any case, authority and responsibility for policy with respect to Crown Lands are well defined and understood. This means that the Board should not find itself involved in jurisdictional





disputes. It would be a workable group within which difficulties could be ironed out, if need be, in a spirit of compromise in the interests of progress. Progress toward sound forest management is being made by the various responsible authorities, but it is uneven, and much slower than it might be.

By proper co-ordination of individual action and co-operation among governments, forest industries and the public, progress towards attainment of a sound and balanced forest management programme can be accelerated and the production of raw materials to meet the demands on Canada for forest products can be assured, in perpetuity.

The next section has to do with Manpower and Capital requirements - the other two major requirements arising from this growth trend. They are really not alternatives; they should be taken together as complementary factors which in combination bring about the indicated expansion with maximum efficiency and benefit. Manpower and capital are factors of productivity in a sense.

The growth of mill employment and the investment over the years in this industry namely from 1921 on to the present time - employment has gone up from 25,000 to 61,000 in '54; Investment from \$380 million to to \$2 billion; Investment per Employee from \$15,400 to \$32,800 and production from a million and a half to just under 10 million.

The table shows again the rapid growth of the industry. Since 1921, while production has increased



by 538 percent, capital invested rose by about 430 percent and employment by 153 percent. The two factors combined produce a growth in production greater than their separate increases.

Estimating future manpower requirements for the industry is difficult. Using such records as are available, estimates of average man-hour production per production employee, have been calculated and these have been used as a basis for the following projections; and you see them there in the table.

The estimates given earlier of potential 1980 production of main products total 21,900,000 tons. Based on the above 1980 production per man-hour estimate, it is calculated that roughly 156 million man-hours will be required to provide this total production.

To translate that total number of man-hours into number of employees required requires an assumption as to the number of hours each individual will work during the year. At the present time the industry generally is on a standard work week of 40 hours. But since it is unlikely that the work week will remain unchanged over the period, estimates have been made of employees required in 1980 under various work week schedules. We see it ranges from a 44 hour work week at 68,000 to produce the 1980 results, down to an 88,000 worker population on a 34 hour work week.

MR. LUSSIER: You mean at the mills?

MR. FOWLER: This is the mills alone, sir. I am dealing only with the comparability to the present. These are not even total mill employment.





These are production workers alone.

MR. GRAUER: You don't take it below the 34 hour week?

MR. FOWLER: Got to the bottom of the page there. No, we have not, Dr. Grauer. I know there is talk of 30-hour week and so on, but we thought this was going far enough.

These estimates compare with an actual figure of 51,048 production employees in 1954. As measures of potential employment, these figures are conservative. More accurately, they refer to the number of jobs available rather than to employment, in that they represent the number of employees required provided each employee works the full schedule of hours in each week of the year. We have to make some extra allowance for holidays, turnover, sickness and so on.

The figures do not include supervisory and office personnel. In 1954 there were 9,789 of them employed and we think that might go up to 12,000 in the 25 years.

So that the total manpower requirements of the mills in this industry on the basis of the present 40 hour week is estimated at 75,000 production employees and 12,000 other classifications, or a total of 87,000 about one-third or 27,000 more than in 1954. So that by doubling production you get about a third more in this kind of employment.

Only a brief comment can be made concerning future requirements of woods workers. At the present time, some 10,000 workers are employed full time on woods



and another 240,000 receive part time employment. For most areas in Canada, the seasonal pattern for logging operations is the reverse to that in farming and this dove-tailing provides, on the one hand, an excellent labour pool for the industry and on the other hand gives to farmers and farm workers a source of earnings in off-season employment.

Although seasonal logging can be expected to continue as the main feature in woods operations east of the Rockies, several factors can be expected to smooth out the typical pattern somewhat. Year-round logging has been on the increase in Canada for some years and this has resulted in some labour economies, chiefly as a result of reduced turnover. Mechanization, apart from its direct effect on productivity, will further this trend by overcoming difficulties of terrain and climate. Moreover, labour used in conjunction with mechanical equipment requires more technical training and this is stabilizing in itself. Finally, as we indicated in the section dealing with woods requirements, improved yields should result in more intensive logging on the forest areas in use, with resultant gains in production per worker.

A rise of 110 percent has been projected for pulpwood requirements through to 1980. Merely as orders of magnitude, these requirements might be met by a work force of 30,000 permanent employees and 300,000 seasonal workers.

What are some of the implications of these





projected increases in manpower requirements? Mention has been made of productivity. With reduced handling of wood from forest to mill, higher-speed pulping, faster machines and papermaking controlled by automatic devices, manpower needed per ton of pulp and paper production will be less than it is today. But the continued growth of demand for the industry's products will also result in an over-all increase in manpower needs.

That is the familiar pattern of technological progress. "Automation" is a new and perhaps frightening word but the process it seeks to describe has been going on in the pulp and paper industry for years and the experience is not one that should cause terror to anyone. Indeed, all the automatic designs and devices which can be conceived and applied will be needed if we are to supply the probable pulp and paper demands in prospect and do so with the efficiency and low cost needed to maintain and expand our position in world trade.

Automation raises problems for the future, but they are of a different kind. The pulp and paper industry of 25 years hence will not only be larger, but much more technically complex than it is today. The problem will be to train men in the technical skills which will be needed for its operation. As important as the numerical increase will be a need for the better education and up-grading of personnel. The needs for scientists, engineers, trained operators and maintenance men will rise more rapidly than the growth of total personnel would suggest. And in the management and executive fields more men will be needed who are equipped





to plan and direct the operations of the larger, more diversified and complex industry of 1980. In Canada we are already pressed with shortages in many of these fields; if our growth is not to be slowed we must broaden and strengthen our educational facilities.

On Capital Requirements - the present total capital is slightly above \$2 billion. Since 1945, new investment in plant and equipment has totalled in excess of \$800 million, which incidentally is more than has been spent in any other industry in the period. Our earlier projections of new capacity requirements indicate that a still more rapid rate of growth lies ahead.

Capital requirements to achieve this growth can be projected only in very rough terms. It is in this field - future needs of plant and equipment - that the greatest changes from past experience can be expected. We say more in the appendix about revolutionary technical changes and innovations but, beyond doubt, the pulp and paper mill of the future will differ greatly from what it is today.

At current costs and prices, the investment needed per daily ton of capacity to build a new pulp and paper mill is about \$115,000. This figure is an approximate composite of the varying investment costs for the different types of pulp products. To add just over 12 million tons of annual capacity, equivalent to an increase in daily capacity of 40,000 tons, would on this basis require an investment of \$4.6 billion. This figure might be high on two counts: it makes no



no allowance for capital savings through technical or design changes nor for reduced capital costs usually achieved when capacity is added to existing units. A better estimate might be for a total requirement of \$4 billion. This figure does not, however, take into account original or improvement investments in woodlands, in power development nor in townsites.

The major consideration which will ultimately determine whether this investment will be undertaken might be called the factor of business climate: the general environment, to be determined primarily by the policies of governments, in which business will be allowed to operate. Because of its importance, that question is discussed in greater detail in a later section. Here, one particular aspect might be mentioned.

The Canadian pulp and paper industry has since the war been a sound business enterprise for investment. From the speculative excesses of the late 1920's and their aftermath, much has been learned. The industry is stronger now, in its financial structure and growing diversity, perhaps than it has ever been. It stands today as an efficient and competitive producer, seeking no favours.

Special situations could, however, arise. In its heavy participation in world trade, it is vulnerable to policies and actions abroad on which it can exert little or no influence. A case in point was the setting up of special depreciation provisions by the United States government about the time of the





Korean War. Newsprint having been declared an essential commodity, the benefits of these provisions were extended to investment in new newsprint capacity projects. That action was not matched in Canada.

Some 575,000 tons of new U.S. capacity qualified for this assistance and much of it is now in production. In the circumstances of the time, with rapidly rising requirements in North American and abroad, these results were not immediately harmful. In other circumstances, action of this kind could impose hardships on the Canadian industry, placing it at a disadvantage with its competitors, in other countries. In such a situation, action by the Canadian government, which alone could redress the balance, might be required.

Now, Mr. Chairman, what do you want to do? I have taken a bit longer on this section now than I expected. I am quite prepared to go on for as long as you wish to sit but I don't know what your programme for tomorrow is.

THE CHAIRMAN: We were wondering if you would have any time tomorrow morning?

MR. FOWLER: I am perfectly at your service.

THE CHAIRMAN: We have got two items on the agenda which I don't think will take more than perhaps an hour and a half. Mr. LePan just said that they are trying to shift or re-arrange the order tomorrow and perhaps if the first item is Mr. Stavert, we will call Mr. Stavert tonight. The first person is Mr. Stavert, I don't think he would be very long and



if you would like to come back at that time, I think that might be easier.

MR. FOWLER: Yes. Well, I am really down to this point that there are two sections left.

THE CHAIRMAN: There are two sections left.

MR. FOWLER: There is one that I would like to go into with some care. There is this section on technology and research which is very interesting and I think it could be important to know something about. I can summarize but I think it means a rush tonight.

THE CHAIRMAN: Yes, and then we would like an opportunity to ask you some questions. Let us say we will carry on then at 10:15, 10:30 probably.

MR. FOWLER: You are starting at probably what time in the morning?

THE CHAIRMAN: We will start at ten o'clock.

MR. FOWLER: Then I will come in at ten o'clock and wait.

THE CHAIRMAN: We will adjourn then until ten o'clock tomorrow morning.

(At 5:25 P.M. the Commission adjourned until Thursday, January 19th, 1956, at 10:00 A.M.)



ROYAL COMMISSION  
ON  
CANADA'S ECONOMIC PROSPECTS

HEARINGS

HELD AT

MONTREAL, QUE.

JANUARY, 19, 1956

VOLUME 20





MONTREAL, Quebec,  
Thursday, January 19, 1956

APPEARANCES: Mr. R. E. Stavert,  
President, Consolidated Mining  
and Smelting Company of  
Canada Limited.

Mr. E. Howard Smith,  
President, Howard Smith Paper  
Mills, Limited.

Mr. R. M. Fowler, President,  
Mr. F. L. Mitchell, Management  
Association, Director,  
Mr. W. E. A. Pepler, Woods Manager  
Forest Engineers,  
Mr. J. M. Smith, Economist,  
Dr. R. L. Theismeyer, Director of  
Research Institute,  
Canadian Pulp and Paper Association.

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THE CHAIRMAN: Shall we come to order?

We are very pleased this morning to welcome Mr. Stavert, the President of Consolidated Mining and Smelting and as we were just remarking, some of us had the pleasure of going over his mine at Pine Point last summer. Mr. Daniels back there was with us. It looked pretty interesting, didn't it? We are very pleased that you were able to come this morning and we are looking forward to hearing what you have to tell us.

MR. STAVERT: Thank you, Mr. Chairman. I am appearing before you this morning to give the Commission my views on prospective mining developments in Canada over the next two or three decades, particularly with respect to those metals with which my company is concerned, that is lead and zinc.

Most of the Canadian mines now producing lead and zinc should continue in operation for several



years. The Sullivan in British Columbia, and possibly some others, for several decades. And it seems likely that more ore will be found as extensions to or in the vicinity of some of these operating mines. However, making a forecast of Canada's lead and zinc production for the more distant future, such as 15 or 25 years ahead, is nearly impossible, if ordinary accuracy and reliability are required. Even if we assumed that little or no change would occur in the relations between metal prices and operating costs, we would be faced with the necessity of having a reasonably accurate estimate of the overall reserves, which is simply not available. This fact should not be overlooked, as is sometimes done by planners who accept certain figures on reserves, in order to get on with the solution of their economic problems. Accordingly, it may be worthwhile to discuss the difficulty of making an estimate of the reserves that enter into the calculations of production in the more distant future. Among other things, this may improve the interpretation of the estimates that are available.

Most mines operate on known ore supplies that are sufficient for only something like five or ten years, although in a few cases exceptionally favourable exploration results or other circumstances give lives that are considerably beyond the ordinary range. Experience shows that, on the average, this practice is better than the alternative of proving up approximately the full potential before starting production. As a consequence, the operating mines, as well as those under pre-production development, find substantial amounts of new ore every





year. The compilations of overall reserves cover the known reserves in the individual properties and usually add certain amounts to represent the expectation of future discoveries in these properties. On the average, this expectation tends to be proportional to the known reserves. The net result is that the compilations over a period of years give reserves that remain more or less constant when expressed in terms of the life at the current rate of production.

For example, one compilation made in 1946 gave a life of about 35 years for Canada's lead and zinc reserves and another compilation made in 1954 gave approximately the same life for the reserves. The production rate for lead remained about constant during the interval, while that of zinc increased about one-third. Accordingly, there was little change in the lead reserves and about one-third increase in the zinc reserves as indicated by this latter compilation. It is clear that such estimates give lives that reflect mining judgment concerning adequate reserves for production, rather than an independent appraisal of the overall potential. Therefore, compilations are not of much assistance in attempting to determine the actual production to be expected 15 to 25 years from now. On the other hand, it should be noted that short-term forecasting is an entirely different matter. Keeping an up-to-date compilation of the changes in the reserves in all properties can, of course, be quite helpful in predicting the production a few years ahead.

In the foregoing I have ignored the additions to the reserves that may come from discovering



entirely new deposits. Although it is known that certain regions in Canada are geologically favourable and have not been fully explored, it is, of course, quite impossible to estimate how much ore they will produce, one reason being that the discovery of a few large deposits would be the main determinant, so that averages for an area have little significance. However, the impossibility of predicting them with any accuracy does not detract from the importance of entirely new deposits. Fifteen years ago, 92 percent of Canada's lead and zinc production came from three large mines, the Sullivan, Buchans and Flin Flon. By 1954 production from newer mines had increased so that the proportion of the production from these mines I mentioned was only about 60 percent of the total, and recent discoveries in New Brunswick, Ontario, the Northwest Territories and the Yukon promise to reduce this percentage still further in the near future.

In the foregoing remarks it has been assumed that economic and political factors will remain constant. As these factors control metal prices and operating costs, it is clear that any conclusion reached concerning future production, by considering compilations of ore reserves, must be modified if a significant change in these factors is believed likely.

The foregoing points out the extreme difficulty of forecasting production rates and new discoveries over the next 15 to 25 years. However, consideration of past performance and future possibilities leads to the conclusion that Canada will have, for many years to come,





its own refined supplies of most of the non-ferrous metals now mined in the country, particularly lead, zinc, cadmium and bismuth, and will also export large tonnages of these metals.

The value of the mining industry to the country is, of course, apparent to everyone but all too frequently the fact that our industry is based on a wasting asset is overlooked, not only by the man in the street, but occasionally by our governments as well. In other words, it is a one-crop yield and the only way to insure the industry's health and growth is to keep it free from burdensome shackles and to facilitate exploration in every way possible. Government-controlled prospecting and mineral surveys are not the complete answer to the problem of finding new mines. Profit motives, that activate the individual prospector and the progressive mining companies, release an immense amount of effort, technical skill and detailed information which no government can ever hope to match. On the other hand, government activity in the broad fields of topographical mapping, road construction, fundamental research and mineral surveys by the Geological Survey of Canada can and do facilitate the finding of mines. The information collected by the Geological Survey of Canada unquestionably has been responsible for the finding of many mines which have returned to the Canadian people, in the form of wealth, many times the cost of the Survey. While very conscious of and thankful for the commendable work of the Survey in the past, we feel that the present staff should be enlarged and their activities extended. The rate of





topographical mapping should be accelerated, especially in the producing or potential mineral areas. Road construction, particularly in well-known mineralized areas, is a most valuable government activity. It facilitates the opening of known properties and stimulates prospecting. The work of the Department of Mines and Technical Surveys and of the National Research Council has been of inestimable value and deserves every encouragement. The efforts of our provincial governments in similar fields are to be commended and encouraged.

Transportation is one of the major problems in the future development of the mining industry. Apart from the extensions to existing mines or discoveries in their immediate vicinity, new discoveries will probably be made in comparatively remote areas. It will be necessary to supply suitable means of transportation from the mines to the smelters and refineries and for bringing in to the mines the operating supplies required. With satisfactory transportation facilities, ores and concentrates may be moved to sources of power and fuel, but in most cases the supply of power in the vicinity of the mines in remote locations will be a problem.

The question has arisen as to whether it is good policy for Canada to continue the active development of its non-removable resources, such as metals, where a large portion of the resultant production is exported from the country. In my opinion, Canadian mineral deposits should be developed when it is considered economic to do so. A policy of holding back development of non-removable resources, particularly metals,



unquestionably requires, among other things, a large measure of government control, the administration of which might prove to be very difficult and costly. Furthermore, deliberately withholding adequate supplies to meet the current demand for any particular material tends to force consumers to turn to other more readily available materials so that one cannot be assured that markets for the metal so withheld will exist in the future. By proceeding with the development, important ore bodies, which do not outcrop at the surface, often are discovered as a result of actual mining itself. Consequently, it is better to equip for production all mines which will return the cost of equipment and show a reasonable chance of further substantial profits. We consider that, in the long run, mining companies and the mining industry will gain by following such a policy, and the country as a whole will benefit from the prosperity of the mining industry. One possible exception to this policy would be a scarce but highly strategic mineral or metal found in limited quantities in Canada but available in reasonable quantities in other parts of the world, which might not necessarily be North America or even parts of the "free world". In such a case, national security might over-ride economics and dictate that the resources be held in reserve against a possible future emergency. As noted previously, the prospects of extending known resources of lead and zinc as well as discovering new resources of these metals in Canada are considered to be very good. Therefore, it is most unlikely that our resources of these metals will be





depleted within the foreseeable future to the point where Canada would not be self-sufficient.

At this point I would like to say a few words about research. Throughout its history the success and growth of my company have been due in no small degree to research. For many years that research had to do chiefly with the invention and perfection of processes and techniques to treat the ores from our mines so as to yield the highest possible recovery of all the contained useful metals in a state of high purity at the lowest possible cost. The growth of the Company both in volume and diversity of metal output, in times of low prices as well as in times of high prices, attests to the success of that research.

Unlike some of the so-called newer metals for which it was necessary to find and develop uses, lead and zinc uses developed over the past several hundred years without the necessity of extensive concerted research and development on the part of the primary producers. During the period of this growth there was little or no competition from substitute materials except for the past decade or so. In common with most other lead and zinc producers we gave very little attention to the problem of the most effective uses of lead and zinc, their alloys and compounds. In other words, if these metals are to approach their maximum potential usefulness, greater efforts must be expended on fundamental and applied research. At present we are spending a fairly substantial amount of money in this work each year and plan to increase this



expenditure. We feel that, if the industry is to be maintained in a healthy state, continued research will be necessary to ensure that lead and zinc are used to best advantage in applications where their unique properties give superior service.

The Company is also working actively with associations of producers and consumers of lead and zinc in Canada, in the United States and in the United Kingdom in the development of the lead and zinc industries. Mention should be made at this time of the excellent co-operation revealed in this work from various Canadian government bodies, notably the Department of Mines and Technical Surveys and the National Research Council.

Since non-ferrous metals occur chiefly as sulphides, their recovery necessitates the disposal of large quantities of sulphur. Problems involved in the disposal of sulphur will be accentuated by its production from natural gas in Western Canada. In due course, the iron content of the tailings accumulated from the Sullivan Mine at Kimberley, B.C., may be turned into iron and steel in the province. This development will have to be linked with the economic disposal of still further quantities of sulphur.

Mr. Chairman, when your Commission was in the West you heard something of the mineral possibilities of the Great Slave Lake area in the Northwest Territories. We have a major interest in a large deposit of zinc-lead ore near the south shore of Great Slave Lake. This is owned by Pine Point Mines Limited





in which we have a 78 percent interest. The exploration work carried out on the property during the last five years, involving expenditures of about \$3 million, indicates that a substantial part of the deposit can be mined by open-cut methods and metallurgical tests have shown that the ore is very simple to treat and that high metal recovery and high grade concentrates at the property can be expected. Thus, operating costs per pound of metal in concentrates at the property will be low. The main problem is transportation as the property is about 450 miles from the nearest railway. It is our intention to bring this property into production as soon as railway facilities can be made available at normal and reasonable freight rates. In addition to the construction of the plants at Pine Point it would be necessary to add to the metallurgical facilities at Trail in order to handle the extra production of concentrates.

In conclusion I should like to mention one or two other important problems common to the mining industry of Canada. Although the probability of the continued expansion of Canada's mineral resources is excellent, we must bear in mind that we do not have a monopoly on the production of non-ferrous metals, and must be competitive in the markets of the world since domestic consumption can use only a comparatively small proportion of the products of our mines. There is danger of the cost of labour becoming too high without a corresponding increase in productivity. Maintenance of suitable trade relations with other countries is vital. Increases in tariffs and the imposition of





quotas by other countries would be unfavourable factors in mining development in Canada. Export markets are particularly essential to justify production rates high enough to obtain low production costs. If we assume that these problems can be solved satisfactorily, then in my opinion, the production of lead and zinc and their associated metals in Canada will expand and add to the wealth and economic well-being of Canada as a whole during the foreseeable future.

Thank you, Mr. Chairman.

THE CHAIRMAN: Thank you very much, Mr. Stavert. I would like to take this opportunity of thanking you and your company and the other principal mining companies in Canada for the very great deal of help which they are giving to this Commission and to the staff of the Commission in the work which we are assigned to do. I also thought that your cautionary remarks about long term estimates of reserves were very much to the point and I can assure you we won't forget your caution in that regard. Thank you very much.

We will adjourn for five minutes.

--- Recess

--- After recess.

THE CHAIRMAN: The next submission is that of the Howard Smith Paper Company Limited, Mr. E. Howard Smith, President. We will label his brief Exhibit Number 112. Mr. Smith.

MR. SMITH: Mr. Gordon, Mr. Chairman: This submission regarding fine and specialty papers is intended to supplement the comments regarding those



papers in the Canadian Pulp and Paper Association submission. In that brief, most of the grades in question are referred to under the heading of "Book, Writing and Groundwood Papers" but in addition to those grades, I have included tissue and sanitary papers, certain grades of bleached and semi-bleached wrapping papers, particularly when used for waxing and special wrapping papers such as greaseproof, glassine and related grades.

While I know of no clear-cut definition of fine and specialty papers, the grades of paper and bristol which I propose to deal with are made in 26 mills situated in Quebec, Ontario and British Columbia.

Generally speaking, the mills manufacturing these products are located in small or medium-size towns where frequently the paper mill is the principal industry and in some cases, the only industry. Some of the mills are integrated; that is, they produce, themselves, most of the pulp they consume and some of them are converting mills who buy most, if not all, of their raw materials. However, because of the wide variety of grades of paper made in almost every mill, even most of the integrated mills have to purchase some pulp of types which they do not manufacture themselves.

The total production of these grades is presently running at an annual rate of about 440,000 tons, of which approximately 84 percent is consumed in the domestic market.

In general, these grades can be classified as "white papers" -- I put that in quotation marks,





Mr. Chairman, because actually a lot of the paper is coloured, but I just use the term "white" as a general sort of term -- and embrace all the grades of paper made in this country except newsprint, kraft wrapping and converting papers, building papers and paperboard. Within this "white paper" section there are two broad divisions -- first, fine and specialty papers, and second, consumer products.

Fine and specialty papers include about 800 grades ranging in thickness from lightweight tissue, which calipers about 2 one-thousandths of an inch to heavy bristol having a maximum thickness of about 40 one-thousandths of an inch. In quality, the grades range from halftone news, which contains only slightly less groundwood than newsprint, through chemical wood-pulp grades such as book, envelope, tablet, coated papers, bonds and writing papers, to grades made wholly from rags, cotton or flax pulp. These papers serve the general and basic requirements of the nation's business and encompass papers used in the form of stationery, business forms, envelopes, bank notes, advertising, text books, periodical publications, etcetera, and in addition, many special grades are manufactured for specific end use such as cigarette paper, paper for drinking cups, wallpaper, milk containers, paper for wrapping bread, greaseproof, glassine and so forth.

Consumer products are those papers which serve the sanitary requirements of the nation, both household and industrial. In addition to making the



paper stock, the mills generally convert this into the finished packaged products. These include toilet tissues, facial tissues, sanitary napkins, serviettes, paper towels and special sanitary products for hospitals, etcetera.

A very brief summary of the papers produced by these mills is appended hereto as Schedule "A". In examining this schedule, it must be borne in mind that only major classifications are listed and that each classification is composed of many different grades. Also almost every individual grade is made in different thicknesses and weights and many are made in several colours as well as white, each colour in varying weights.

In addition, some grades, colours and weights are made in a wide variety of finishes.

Not all of these "white papers" are manufactured by any one manufacturer; some manufacture fine and specialty papers only; some manufacture only consumer products; some manufacture both but do not make all grades within the fine and specialty group.

All the manufacturers engaged in the fine paper field are highly diversified and some make literally hundreds of different grades of paper. Since many of the mills engaged in the manufacture of these "white papers" also make other pulp and paper products, it is impossible to supply accurate statistical data covering such points as capital invested, employment, wages and salaries, etcetera, which would be accurate to fine and specialty papers only. It is well known, however, that the manufacture of these grades requires a larger number of man





hours per ton than any other group of grades within the paper industry and that capital invested per ton of finished product is the highest within the paper industry.

In the Nineteenth Century and the early years of the current century, a large part of Canada's requirements of fine and specialty papers, particularly the higher qualities, was imported. Rolland and Toronto Paper Manufacturing Company both made rag-content papers, and some other companies such as Canada Paper Company made quite a variety of papers ranging from newsprint to book and bond papers. However, in spite of this, producers in the United Kingdom and the United States supplied a very large part of Canada's needs.

Prior to World War 1, export markets were of little interest to the Canadian mills, whose main objective was to serve the domestic market by supplanting as much imported paper as they could.

While the Canadian market was and still is small compared to the United States or the United Kingdom markets, the range of grades required was very broad. This meant, of course, that Canadian mills had to produce many different grades in comparatively small runs. Accordingly, the mills were built and equipped to make efficiently, a wide range of grades in small volume. Paper machines were small and versatile and operating personnel had to develop high skills and exercise considerable ingenuity to produce the different products required.

As Canada grew and its consumption of fine





and specialty papers increased, larger, faster machines were installed and in addition, some machines which had become outdated for the manufacture of newsprint, were adapted to the manufacture of some lines of "white papers".

In considering the Canadian "white paper" industry, it should be borne in mind that unlike newsprint and pulp, at no time has this part of the Canadian paper industry had access to the large U.S. market and that although it has actively sought export markets for many years, customs tariffs, and exchange restrictions, combined with severe competition from United States, United Kingdom and Scandinavian mills, prevented it from developing substantial tonnage in export fields.

Had this industry not been given reasonable tariff protection, it would probably never have started and certainly it could not have developed into anything approaching its present stature.

In 1920 the combined production of book and fine papers (the two principal classifications in the fine paper group) was only 49,541 tons. With some setbacks during the depression and again in 1952 and '53, production has increased fairly steadily and in 1954 amounted to 189,478 tons - almost four times the 1920 figure.

The Canadian Pulp and Paper Association submission includes considerable statistical data on various segments of the Canadian pulp and paper industry and I am therefore not including similar figures. However, the grades I am covering fall into several of the classifications used by Canadian Pulp and Paper



Association and therefore, the following table of 1955 production and shipments may be of interest -- you don't want me to read that table, do you?

THE CHAIRMAN: No, thank you, I think we have all studied your brief.

MR. SMITH: It will be noted that as pointed out by Mr. Fowler, groundwood papers accounted for some 75 percent of the exports of the first four classifications and over 70 percent of the exports of all grades covered in the table. This is typical of what has been happening for many years and I see no reason to expect any substantial increase in the exports of any of the grades covered except the groundwood printing and specialties.

The main feature of the Canadian fine and specialty paper industry today is that it is a domestic industry supplying Canada with a wide range of products in comparatively small volume of most grades. In this respect it is very different from newsprint and pulp, which have enjoyed free access to world markets for many years and consequently have developed as export industries.

While the total production of the fine and specialty mills has increased greatly over the last 50 years or so, the range of products made has also increased and it seems likely that this range will continue to increase as new uses for paper are found and as Canadian consumption of certain grades which are now imported increases to the point where they can be manufactured economically in this country.

Compared to the United States, the Canadian





market for these types of paper is still small, not only because the population of the United States is approximately eleven times that of Canada, but also because of the greater per capita usage of paper in the United States. The Canadian demand for each grade, weight, colour, finish, etcetera is, in consequence, relatively small, making mass production of most grades by Canadian mills, impractical and necessitating frequent and costly process changes on high-cost equipment operated by highly paid and skilled personnel. Thus, Canadian equipment is less specialized and must represent a compromise in design to handle a wide range of products, which often results in slower operating speeds.

Much of the equipment is obtained in the United States at costs in excess of those paid by U.S. mills, due to Canadian Customs Duty, and due to the more rigorous Canadian climate, more substantial construction is necessary than is frequently used in other countries, particularly in the southern parts of the United States. As a result it is estimated that capital outlay in construction and equipment by these mills in Canada is some 25 percent greater than in the United States.

Canadian production costs are higher than those pertaining in the United States for reasons other than those already mentioned, namely, the size of the market and capital investment. Labour rates paid in these Canadian mills, particularly for skilled work, tend in some instances to be higher than those paid in similar mills in the United States. These higher Canadian rates arise from the fact that in the minds of the labour unions, Canadian "white paper" mills are



unavoidably associated with the much larger newsprint mills. While the rates are not as high as those paid by the newsprint mills, nevertheless, the effect is to raise them above some of the levels paid in many U.S. mills, particularly in the skilled categories.

Again, overhead expense per ton of paper is lower in the United States, not only by reason of the lower amount of capital investment required but also by reason of the ability of U.S. producers to operate their mills seven days per week when volume is available (and many U.S. mills are operating on a seven-day basis at this time). Canadian mills, even if volume were available, which is not and seldom has been the case, are prevented from working more than six days per week by Provincial Legislation or by lack of union agreement.

Another disadvantage suffered by the integrated fine and specialty paper mills is the cost of wood. An overwhelming proportion of the tonnage of the grades they make is made from woodpulp and pulpwood costs of these mills are on the whole higher than the cost of wood to mills making similar grades in the United States for the following reasons:

(a) Especially in the south, cutting and hauling of pulpwood is on a hand-to-mouth basis. Thus they carry much smaller inventories of wood with a consequent saving in interest cost per cord of wood used.

(b) Rail rates on pulpwood in Canada are far higher than in the United States for equal distances of haul. In the southern United States where most of the pulpwood is produced, wood is shipped in 5 foot lengths





in special cars designed to give high loadings and low cost loading and unloading. Freight rates are on a per cord basis which encourages logging direct from the stump to cars instead of piling the wood on the ground to dry out to save paying freight on moisture.

In Canada we ship in 4 foot lengths (in Quebec longer lengths are not allowed by law to be man handled) on non-specialized cars capable of handling only low loads and freight rates are based on the weight carried rather than the number of cords.

I believe that co-operation between the Canadian railways and the industry can solve this problem.

Then, too, in the case of the Howard Smith Paper Mills, our rail haul is about 425 to 450 miles as compared to hauls averaging about 150 miles in the south.

In the past it has been felt that the advantages enjoyed by the southern U.S. mills were offset to some extent by the long haul on the finished product to Canada. However, recent developments in the use of hardwoods for pulping has greatly improved the position of the northeast and north-central States and many of these areas are within easy reach of Canada's largest markets for fine papers.

Canadian mills manufacturing the grades under discussion, must be pretty well concentrated in Ontario and Quebec due to the preponderance of the market existing in that region. However, they have markets to serve in the Maritimes, the Prairies and British Columbia and transportation costs are a very important factor, particularly when serving these markets.





If power in some instances is reasonably cheap in Canada, it should be remembered that power is a much less important factor of cost in the manufacture of fine paper than it is in the manufacture of newsprint.

Because of the limited Canadian market, "white paper" products cannot be mass produced here and are, in fact, frequently tailor-made in comparatively small quantities to meet Canadian needs. In the case of fine and specialty paper, exports are restricted because, except in the case of some groundwood papers, the industry cannot enter the U.S. market over its tariffs, and because of severe price competition from United States, Scandinavian, British and other European mills and by reason of currency difficulties and other restrictions.

In consumer products, the low prices quoted abroad by mass producers of these items in the United States, practically exclude Canadian mills from export markets.

I might add here that generally speaking, Canadian "white paper" products are fully comparable in quality to those produced by mills in other countries; our technical knowledge and ability are equal to theirs; our mills are efficient for the type of market we have to serve but we lack the all important advantage of large-scale demand and resultant specialization and mass production.

In summary, this "white paper" industry was started and has been developed to serve the requirements of the domestic market. It was recognized that this



market was relatively small, is almost as varied in its requirements as that of the United States, and it was also realized that the industry would probably never find large volume in export markets to supplement Canadian demands. Accordingly, the mills have been developed to suit these conditions. Although every effort is expended to economy of manufacture by continual heavy expenditures for modernization and improvements, extensive research, industrial engineering, etcetera, higher costs than those pertaining in many other countries, notably that of the United States, are inevitable.

The future of the fine and specialty paper industry is largely dependent on Government action with respect to customs tariffs. From the foregoing description of the nature and scope of this part of the Canadian pulp and paper industry, I believe it is evident that particularly with respect to tariffs, it should be regarded as a separate industry distinct from other parts of the Canadian paper industry such as newsprint and pulp.

It seems obvious to me that reasonable tariff protection is essential to the continued prosperity and development of the fine and specialty mills and I feel that there should be no reduction in present rates of duty, particularly as they refer to imports from the United States. I believe too, that this should apply even if other countries are prepared to make reciprocal reductions, as such action would only serve to open further, the Canadian market to imports from those countries without in the slightest degree increasing our opportunities for export to their markets. This is particularly true in





the case of the United States.

The U.S. market cannot be opened to us by a reduction in their tariff rates since Canadian costs for these grades are generally higher than the costs of mass production mills making similar grades in the United States.

In addition, because of the United States administration of its customs law, it can and does effectively limit imports by such techniques as valuations, delay of drawbacks and other similar procedures. There is no escape from the fact that a lowering of Canadian tariffs would result in the mills having to reduce their prices to their entire domestic market on a wide range of grades. This would be necessary in order to attempt to hold as much as possible of their present market and this action would have to be taken despite the fact that no large new markets would be available to them to create additional volume by which costs might possibly be reduced. Most of the Western Canadian market would probably have to be abandoned, since further reduction in price would make the value of this business highly doubtful. Even under present tariff rates, it is necessary, in order to meet competition from closer United States mills, for Canadian mills to absorb approximately 40 percent of the freight cost to these points, in most cases ranging from \$12.00, but more commonly from \$23.00 to \$34.00 per ton. British Columbia markets would be increasingly served from the United States and in fact, even now, substantial tonnage is imported into that province.



It is doubtful whether the industry could survive substantial concurrent reductions in volume and price. It has not been possible to pass along to the consumer all the increases in cost experienced by the mills in the post-war inflationary period and profits on the grades that I am discussing have been reduced in the face of increasing requirements for capital for modernization and improvements, made necessary by the attempt to offset the recent phenomenal increase in labour and other costs and to meet ever increasing demands for new and higher qualities on the part of the mills' customers.

For the past two years, the Canadian domestic market for consumer products has been and is still being attacked by large imports of packaged toilet tissues and serviettes from the United States into our main metropolitan centres.

Due to the increasing domination of the United States' consumer products market by a relatively few exceptionally large producers, smaller mills are seeking to bolster their position by disposing of excess tonnage at low prices in Canadian cities within a relatively short distance of their plants.

Regarding present importations of "white papers" into Canada, Canadian mills would have a better knowledge of Canadian requirements for specific grades of paper, if the Department of National Revenue made available the names of importers and foreign exporters as well as tonnage and value of individual importations. It is my understanding that such information is readily





made available in the United States.

At the same time, I would direct attention to the effects of the present policy of reducing tariffs on individual items by Order-in-Council or in the Budget, on the grounds that such items are not presently produced in Canada. This practice makes it highly improbable that any Canadian mill will ever be able to produce the items in question, for without tariff protection, the laid down price is too low to justify a Canadian producer attempting to develop such a product. Further, the Canadian user, knowing that if the product is produced in Canada the rate of duty might be raised, will not co-operate with a Canadian mill in its efforts to develop a satisfactory product in Canada.

There is one type of "white paper" which is manufactured in Canada on something approaching a mass production basis; I refer to the so-called "Machine Coated Paper" used principally for magazine publishing purposes. This type is made by one mill mainly on one machine on a full-time basis. However, even here the difference in volume is emphasized by the fact that in the United States the tonnage used annually by TIME, LIFE and FORTUNE alone, closely approaches the total annual production in Canada of all writing and printing papers.

Since the presentation of the Fine Paper Tariff Brief in 1946, we have witnessed under the Torquay Agreement, April 21, 1951, the entry into Canada of book paper, both coated and uncoated, duty free when used for magazine publication purposes (Tariff Items 197a and 198a). The net result of this Agreement has been a substantial





and growing rate of imports into this country of these classes of paper. No reduction was obtained in duties on similar paper manufactured in Canada entering the United States and their tariff is found to be prohibitive. It seems ridiculous that a large part of the Canadian market which Canadian mills were actually serving, should have been thrown open to United States paper without Canada receiving similar concessions from the United States.

When it is realized that as mentioned above, one United States' publisher alone uses annually very close to the total Canadian annual production of fine and printing papers, it is evident that a substantial market for Canadian paper of this type could be developed in the United States if we had the same access to that market as the American producer has to ours.

As it is apparently impossible to negotiate free entry to the United States for these papers, it seems to me that the Canadian rates of duty in effect prior to Torquay should be reinstated.

Assuming that tariffs are left substantially as they are, the principal handicap under which the "white paper" mills now operate, that is, limited volume of any one grade, will tend to correct itself. As demand increases, due to increasing population and increasing use of paper, new paper machines will have to be brought into production and it will gradually be possible to concentrate the manufacture of fewer grades on each individual machine.

The Canadian Pulp and Paper Association



submission includes projections of the probable future production, etcetera, of each of the broad classifications which it uses.

However, the following tables, prepared by Canadian Pulp and Paper Association staff and covering Fine paper and Book Papers (the two largest items included by Canadian Pulp and Paper Association in Book, Writing and Groundwood papers) are of interest. The table shows that the demand in the domestic market will increase from the present level up to 207,807 tons in 1980 - that is for Book Papers -- and for Fine Papers up to 237,343 tons.

These projections indicate that by 1980, demand for the grades in question will be about  $2\frac{1}{4}$  times what it was in 1955. If this occurs, then the Canadian mills making those grades will have taken a long step towards attaining mass production with its attendant benefits.

There is one other matter to which I would like to make reference, namely, our anti-combine laws ---

THE CHAIRMAN: Mr. Smith, I wonder if I might interrupt. Just before you deal with this next point? Yesterday afternoon just before we adjourned, Mr. Fowler was about to come to a section of his brief dealing with the anti-combines legislation and I thought that at that time, when he re-appears this morning I will repeat what I was going to say -- I thought that I should point out that this Commission has extremely wide terms of reference and in order to properly assess the direction in which the Canadian economy may go and have some understanding of the problems and so on, probably there should





not be any restrictions on people expressing views on policy questions. On the other hand, I think it is important for the members of the Commission and everybody to remember that it is not our function to repeat the detailed comprehensive study of the combines law which was done by another Commission not very long ago or to duplicate the work which another Royal Commission is engaged on in the field of coastal shipping or to make an exhaustive study of freight rates and I probably could go on to quite a number of other subjects. Now, I thought I should just mention that before this subject was introduced.

MR. FOWLER: Mr. Chairman, I may reserve my right to argue the relevancy of this point, may I?

THE CHAIRMAN: Ah! Here comes the lawyer. Certainly I was going to say this when you re-appeared, Mr. Fowler, but as you are being quoted here I thought it was proper to say something now.

MR. FOWLER: You may be sure that I will argue the point.

MR. SMITH: Well, do I understand, Mr. Chairman, that you don't want me to make that part of the submission?

THE CHAIRMAN: No, no, go ahead. I was just entering a mild note of caution as far as we are concerned as to how far we should go.

MR. SMITH: There is one other matter to which I would like to make reference, namely, our anti-combines laws as they are presently interpreted, and I fully agree with the Canadian Pulp and Paper



Association's comments on that subject.

While I recognize that business excesses must not be permitted, it seems to me that the only reasonable yardstick to use in deciding on an individual case, is whether or not it has operated or is likely to operate to the detriment of the public. And yet, in the Fine Paper case, the trial judge held that he was -- and I quote -- "not free to find that the lessening intended was not undue on the basis of any necessity of the industry, reasonableness of prices or reasonableness of profits obtained" -- end of quotation.

It seems unrealistic to me that if a combine actually operated to the benefit of the public, it would still be open to prosecution and conviction under our present laws.

I believe that it is essential that our anti-combine laws, or their interpretations, be changed if Canadian industry is to play its full part in the development of this country.

Finally, Mr. Chairman, I wish to thank you for inviting me to express my views on this segment of the pulp and paper industry. I realize that this memorandum has many faults but I hope that in spite of that, it will be of some help to you.

All of which is respectfully submitted.

THE CHAIRMAN: Thank you very much, Mr. Smith. I can assure you that it will be a great deal of help to us. I would like to ask one question, or two questions I think -- on page 11, you refer to





the present tariff rates. Are they rates you could summarize for us or is it a very complicated structure?

MR. SMITH: The duties, you mean?  
Customs duties?

THE CHAIRMAN: Yes.

MR. SMITH: No, the basic rate on most groups of fine papers is  $22\frac{1}{2}$  percent.

THE CHAIRMAN: That is on the general tariff, is it, coming in from the States?

MR. SMITH: Yes. Now, there are certain items which come in at lower rates, and there are some that come in at higher rates, but that is really the basic rate that applies to most.

MR. GRAUER: What is the U.S. tariff on similar Canadian papers?

MR. SMITH: It varies all over the place. Some of it is expressed in percent, and some of it is on a specific duty. For instance, Book Papers is a fifth of a cent a pound and five percent ad valorem, and some of the other grades of paper the tariffs get up to 45 percent. In United States they have a great habit of changing classifications. We will establish a product in the United States market in one classification and once you start to build up a little business, they come along and change the classification which automatically changes the rates of duty. The Canadian and American tariff rates don't match at all.

MR. GRAUER: Well, both are exclusive, but the American tariff is a little more exclusive, is that the idea?

MR. SMITH: More exclusive on this (1) because





of the way they apply it and (2) because of the fact that we cannot get our costs down to the point because we have not got the mass production that they have, where we can get under even a low tariff.

MR. LUSSIER: Mr. Smith, on page 8 you say that in the case of the Howard Smith mill your rail haul is about 425 to 450 miles as compared to 150 miles in the South, and you add that through research development the use of hardwood for pulping has greatly improved the position of the northeast and north central States. Now, is it not true that you could enjoy the same privilege, particularly in some of your mills?

MR. SMITH: We are doing so. We have in Cornwall two pulp mills -- two chemical pulp mills, one a soda mill, the other a sulphite mill. In the soda mill, the normal wood to use is poplar. We are developing poplar and hardwoods in that mill presently using a substantial portion of birch, maple - some are hardwoods, and are working on the development of that line and I think that in time we will make pulps out of those woods which will be perhaps not the same as sulphite but which can be used for many of the same purposes.

MR. GUSHUE: On page 13, Mr. Smith, in speaking of fine and printing papers you say it is evident that a substantial market in the United States could be developed if Canada had the same access to that market that the Americans have in the Canadian market. In that respect, would you favour easier access both ways, is that your point?

MR. SMITH: I am there referring to machine



coated papers, mainly.

MR. GUSHUE: Yes, I know.

MR. SMITH: The main use of that is for magazines and publications. The United States mills have free access to the Canadian market and the paper is used for magazines and publications ----

MR. GUSHUE: You make the point -- I am sorry.

MR. SMITH: We have no access to there. At least we have access but subject to duty.

MR. GUSHUE: But you make the point that there could be a considerable increase in the Canadian production if you had the same access?

MR. SMITH: That is right.

MR. GUSHUE: And that is what you would aim at there, I take it?

MR. SMITH: In that item, yes, definitely.

MR. GUSHUE: Not in other items?

MR. SMITH: Not in other items.

MR. GRAUER: Aren't there other types of fine and specialty papers of which that is true?

MR. SMITH: No, I don't think so. That is the only one that I know of that has been really developing on a mass production basis.

MR. GUSHUE: Your point there then would be that you would favour free entry both ways in this particular portion of the production but in others, the other commodities that you mentioned, you think that a continuing protective tariff is necessary?

MR. SMITH: That is right.





MR. GUSHUE: You don't think that possibly over a period of 20 or 25 years you might come to mass production in all these things if you had free entry in order to compete on the same level?

MR. SMITH: Well, the United States' consumption of all classes of paper last year was some 28 million tons. Now, Canadian consumption would be in the neighbourhood of 3 or 4 million tons and it will be a long time, the Canadian market will have to develop substantially before you can get sufficient volume on any of these grades to hope to match American costs.

MR. GUSHUE: You don't think it would develop more quickly?

MR. SMITH: No, sir, I do not.

MR. GUSHUE: Except in this case?

MR. SMITH: Except in that case.

THE CHAIRMAN: Well, thank you very much, Mr. Smith, we are extremely grateful to you. I think we will take another recess and this time it will be five minutes.

--- Recess

--- After recess

THE CHAIRMAN: Will we come to order, please? Mr. Fowler.

MR. FOWLER: Mr. Chairman, if it is all the same to you, I would like to take up of the two remaining sections, first the item that appears in the Appendix under Technology and Research and then come back to the anti-combines section and the final submission page.



The Appendix deals with technology and research in the pulp and paper industry, starting, numbered successively, A1 and so on. The first section of that deals with the present scale of research activities, and I might say that Dr. Theismeyer, the President of the Pulp and Paper Research Institute, whom I mentioned yesterday, had to leave today to catch a plane for a trip, but we have as I said, Mr. Mitchell, who is a technical man and we also have Mr. Douglas Jones who is the Secretary-Manager of our Technical Section in the Association and they can help out on any questions relating to science and technology.

Dealing with the present scale of research activities, we have at the Institute a staff of some 142, a capital plant valued at a million dollars and an annual operating expenditure of about a million dollars at that Institute. In addition to that there are some 25 company research departments and while no careful survey has been made of the capital plant and operating expenditures of these departments, we could argue for quite a while as to what is research and what is development, it looks to us as though about \$15 million has been spent on capital plant in these company research facilities and their annual operating expenditure on research is about \$8 million and from four to eight million more is spent annually on the development stage.

So that putting it all together the Canadian industry is probably spending some \$13 to \$17 million annually at the present time on research and development at the present time, which amounts to about





one cent for each dollar of gross sales.

Frankly, in comparison with a survey taken of some 1600 companies in the United States that is a low figure. The average in the United States was about two cents on the sales dollar. The important thing, perhaps, in this instance, is that most of this growth has happened since 1945 and there wasn't much research during the bad days of the '30's and during the war days most of the research facilities were directed directly towards wartime service and therefore this is really a rather rapid advance over the ten years period. Certainly since 1945 there has been increasing support to research and technological development and that is shown in the budget of the Research Institute itself, a joint venture which has tripled since 1950.

It might be interesting to the Commission to say a word about the organization of the Pulp and Paper Research Institute which is in a sense a rather pioneer in this field of co-operative research. I think it is the only thing of its kind in Canada. It has, however, been copied in other countries quite extensively. It is, I believe, one of the best examples of co-operation between an industry, a university and a government, and that is precisely what it is. The industry is very fully involved in it, the university is McGill, and the government is the Federal government. It actually goes back in co-operation to around 1913 and more actively since 1927; it is incorporated under the Dominion Companies Act as a non-profit corporation with eleven directors, of which six come from the industry, three from McGill and two from





the Department of Northern Affairs and National Resources in Ottawa.

The revenues of the Institute up to 1950 came mainly from matching grants between the Federal Government and the Pulp and Paper Association. After that for about three years, there were group-sponsored, group-financed projects of groups of companies getting together and undertaking a thing in which that group was interested but that wasn't found to be entirely satisfactory as it tended to break the participation in the Institute into rather separate groups. It also had the tendency of concentrating on more immediate objectives than perhaps the Institute was designed to look after and so in 1953 there was a separate system established of maintaining membership agreements under which individual companies in the industry undertake to provide up to a million dollars a year, contributing to the fund according to their tonnage. The actual amount in any one year is fixed on the basis of the budget of what can effectively be done and is passed upon by a small advisory panel but the thing is kept as practical and as sound as possible. It is working out pretty well. The government is still contributing something over \$100,000 to the Institute but that grant will come to an end when they have constructed for us -- as they are now about to do -- a new research building on the outskirts of Montreal at a cost of some \$2 $\frac{1}{4}$  million. In other words, they are in effect, capitalizing a \$100,000 grant on a fairly generous basis.

The work of McGill, it could be said, does contribute in terms of academic standards and academic



instruction and certain facilities. They own the land on which the Institute building today is situated and they, of course, have contributed an immense amount in terms of general atmosphere of the educational institutions in which we work.

Graduate students of McGill in chemistry and chemical engineering who select doctorate theses in the fields of interest to the pulp and paper industry work at the Institute and they are supported by Institute funds as well as by McGill facilities. There are some 200 Ph.D. graduates who have over the years come out of this Institute and I am glad to say they occupy positions in industry of senior and important scope. We think in this way not only do they go to this industry but they go to other allied industries and we think that is an important contribution.

Our hope is that when added space is available we will be able to develop other forms of educational activity including some at the Master's level as well as at the Ph.D. level.

But the research programme itself, apart from the strictly educational side, of the Institute is pretty broad in scope, with emphasis being on the fundamental and exploratory studies. That comes because it is identified with the university and to some extent detached from day-to-day operating problems of the industry. The industrial sponsors choose it also, that the emphasis should be on fundamental research as they look upon the Institute as the centre for broader, long-range uninterrupted studies of basic principles, and exploratory studies of





a sort which individual companies would find it hard to justify in terms of immediate objectives. Individually many of them could not support such investigations but collectively they can, and they do. The other thing that the Institute does for the industry is to maintain a complement of highly-specialized equipment and manpower of the sort which they could, again, not justify in terms of the amount of time<sup>that</sup> would be used by any individual company but which collectively can be kept very busy. In other words, it is a pretty good example of the advantages of this kind of fundamental, co-operative research.

There is some applied work and some consulting partly because some companies haven't the facilities to do certain kinds of research of that kind. A very close contact is kept with the Technical and Woodlands Sections who very often suggest investigations. We do also conduct some co-operative research for groups of companies. If, for example, the paperboard companies wanted to have something special done on paperboard they would go to the Institute and get it, and a few routine testing and analytical services.

There is a library and bibliography available, which is a service not only to the industry but to allied industries and to government departments.

We do say on page A4 that the organizational pattern of this Institute is one appropriate to a country like Canada as it conserves manpower, reduces wasteful duplication between companies in fundamental research, keeps the cost of research to the individual company down by splitting it across the industry, and encourages



the rapid sharing of scientific findings for the advancement of everyone.

Just a word about activities at other centres. Naturally with the Institute at McGill the emphasis is there but there is a great deal done elsewhere. There is some done through the National Research Council; there is a good deal done at other universities and other centres such as the B.C. Research Council and at the Ontario Research Foundation and that kind of thing. It is not all confined to McGill.

The final part of this Appendix, starting at page 5, deals with the future of scientific and technological progress of the industry and deals with two types of possible change; one which we call evolutionary change which is a slow building and development and the other more revolutionary development, the sort of technological "breakthrough" type of thing which may be quite violent in its change of techniques and technology. There is some resistance to both kinds of change from human inertia, from reluctance to scrap existing capital plant until it has been amortized, and from the need and time required to train for new functions and from hesitancy to interrupt and modify something which is already working quite well. But it is quite amazing when they can demonstrate it, how quickly new developments will be adopted across an industry. The evolutionary change naturally, which does not involve major obsolescence of a plant, will be applied broadly in many cases more quickly than will the revolutionary one, and the completely unconventional is usually introduced in a new plant rather than in an existing one. It may





be more striking in its effect for that reason, but the adoption across the whole industry is more gradual. This is probably a fortunate circumstance because otherwise you would have major dislocations of the economy.

Yet in perspective, the rate at which technological change has already occurred in our modern world must give the skeptics and the conservatives some pause. We look back first in this brief to the last 25 years and see some of the great changes that have taken place in the last 25 years. There is a list there, the splitting of the atom, the television industry, the jet aircraft industry, plastics, transistors, frozen food industry and so on through many more. No radar, no diesel engines approved as being feasible for railroads; many of the rare metals like Magnesium, Titanium and so on were regarded as curiosities and all these things have happened in the last 25 years.

In the pulp and paper industry, since the '30's when many of the companies were in receivership and there was little research at that time, there has, nonetheless, since that time, been startling developments of a revolutionary sort, to use that form of division. Those are listed, new bleaching techniques; increased use of hardwoods; development of by-products and a host of others that I won't go through at the moment.

Well, now, you might observe a little mention in that of this business of speed-up of existing machines. That has been accomplished by many changes and improvements in the existing manufacturing process, of which the vacuum pick-up or vacuum transfer is perhaps the most spectacular.





I think I should probably pause here just a second to point out that the process of speed-up of a newsprint machine is not exactly the same as the process of speed-up of an electric motor perhaps. A lot of people say sometimes, are you running your machines so fast that you are going to burn them up and ruin them, which has been publicly stated. The plain fact is that a newsprint machine is not a machine, it is a factory, and at any given moment, there is a certain bottleneck which puts a top level on its rate of operation. When you correct that bottleneck you create another one a little farther along. It may be your drive today; you put another drive on and you can then go faster. That means then your bottleneck is the amount of pulpwood you can put in at the headbox. So you fix up the headbox and go still a little faster. It does mean that when the speed-up takes place, your operating machine which is different and has a different maximum capacity, and you are not really running at over-capacity in the sense that you would be if you were running a machine too fast.

While this vacuum pick-up is a spectacular development, many of the older newsprint machines were installed with rated speeds of from 600 to 900 feet per minute which was the amount they ran at the time they were installed, but in 1930 the weighted average speed of Canadian newsprint machines was 850. By 1940 it was 1150, and in 1955 it was 1430 feet per minute. Not all of that increase is due to speed up of old machines because part of it is due to the installation of some new fast machines, those are averages. But there were



two machines installed in 1939 with initial top speed of 1500 feet per minute and they are both running at over 2000 feet per minute and another machine installed in 1927 with an initial speed of 1200 is now running at over 2100 feet. So that when we were talking about the expansion of capacity of newsprint yesterday, some of it, and a good portion of it, will come from the continued process of speed-up for which there is still quite an area in which to advance.

Well then, going on with what has been happening, there have been increases in fundamental knowledge of the pulping and papermaking processes. The use of physicists has changed many things in the mills. There have also been advances in working conditions and social betterment. There was a very interesting development last year on the abatement of noise in newsprint mills. Ventilation has been improved; a lot has been done to reduce stream and air pollution, and that process of evolutionary change is a continuous and unending one, and it is likely to go forward.

The more revolutionary change, technological change, is not very easy to forecast in that very definition. It is going to be revolutionary and therefore you can not anticipate it. We think that peaceful application of atomic energy is going to have a big place in the pulp and paper industry in the future, and on this point for both kinds of change, we do make this point that economics will be both a driving force and a check-rein or deterrent. In order to achieve savings you will try to develop technologically but unless the technological





development justifies itself in terms of actual application then it doesn't happen and it is only an interesting possibility for the time being.

I think we do suggest that the probable rate of revolutionary change in technology is apt to be underestimated. There was quite a momentum built up rising from war research and post-war development and it will likely continue. We do mention the way in which the development of nuclear energy applications has gone and confounded all the prophets who said it would take 15 or 25 years for this, that, or the other development to take place.

We think in the pulp and paper industry some revolutionary changes will come faster than usually predicted. One that seems reasonably assured is the development of high-speed continuous chemical pulping at atmospheric pressure. Instead of the present batch system of cooking for eight or ten hours in a digester with chemical present, the probability is that chemical pulp will be made in the future by putting wood in at one end of the pipe, having it under completely controlled conditions throughout, and squirting pulp out at the other end of the pipe. It may well be different pulp, it may have new and improved properties by reason of the shortened exposure to the action of chemicals and also the absence of harmful effects now produced by the chipping of the wood, that is on the fibre itself.

We think that with the development of an economic packaged power reactor, pulp production may move into places where it is now difficult to reach with existing



hydro-electric power. It may become economically usable. We could have many smaller plants distributed across the country located close to the source of wood supply. Some of them might even be semi-portable so that they could be moved around to fit in with the plans of forest management, and they might increase the utilization of wood. We think that whole-tree logging is probably in sight. You may not think so, Mr. Lussier, but some of my advisers are hopeful of it.

We think there will be more fertilization of cut-over forests; there will be increased mechanization in the forest.

We think that this new technology which is possible would provide flexibility which would be appropriate to different local conditions and would not necessarily follow any single pattern. It might be different in British Columbia than east of the Rockies, but both would change.

It is not suggested -- and I want to make this point -- that these revolutionary types of development would render existing mills obsolete. Most of the large pulp and paper mills of Canada will probably still be in their present locations and functioning as part of the industry in 1980. But their operations will be improved, as they adopt some of the evolutionary developments and perhaps to some extent some of the more revolutionary ones. But taking the older and newer mills together, the industry is likely to be a more varied, flexible and efficient one than it is today.

I think this may be enough to say that this





industry is interested in technology and research, is trying to do something about it, it recognizes in these matters the race goes to the swift and while we have a leading position in the manufacture of pulp and paper in the world, we are not going to keep it unless we keep on with research and technological development. I personally believe that we will be able to keep up with our world competitors in this field of technological research.

I think that is all on that section,  
Mr. Chairman.

THE CHAIRMAN: Mr. Fowler, as I said yesterday, we think that this submission by the Pulp and Paper industry and the work that has gone into it, represents a most valuable contribution to this Commission and we cannot exaggerate our debt to you and your associates and the whole industry. We have been very much impressed with your submission.

It does so happen that some notice was given to a section of the brief which you didn't reach yesterday and as I indicated to Mr. Smith, it seems to me that this Commission should be ready to hear the views of people who appear before us particularly the representative of the largest and perhaps the most important industry in the country on matters which, in their opinion, will have a bearing upon the future development of the industry. But also as I implied a few minutes ago, I think that quite obviously it is not our function to make a detailed study of, for example, the anti-combines laws, or another example, a detailed examination of the freight rates structure, in both cases those matters have been studied fairly recently





by other Commissions and while I haven't consulted my colleagues on what I am just about to say, I am sure they will agree with me when I say we have no intention whatever of moving into your field of radio and television.

MR. FOWLER: Well, I could wish you would make a different rule on that one, because you would be very welcome.

Well, Mr. Chairman, I do understand your position, I fully realize that you can't clean up every problem in Canada, but I do point out to you that the title of your Commission is the Royal Commission on Canada's Economic Prospects and in the opinion of the Pulp and Paper industry -- and as you will see as we go through this section -- the economic prospect of Canada in our submission will be very much affected by the course that is taken in the relation between government and business and particularly those relations in regard to the anti-combines Act.

Now I make this point, Mr. Chairman, that in putting this in the brief, this is not just me riding one of my favourite hobby-horses. This is a matter which was discussed by the industry at their executive board and specific approval given to the fact that they should say everything they could say and everything they did feel on the importance of the relationship of this anti-combines law to the economic prospects of this industry. I may say that they can claim to be something of experts on the subject, not speaking from theory at all, because as you will see in a moment they are involved in six of these prosecutions at the present time. So if I



may go on, I will.

We say if the wisest policies are adopted for the conservation and development of our forests, for the encouragement of capital investment, for the training of men and for the expansion of international trade, it is unlikely they will achieve the full potential of Canadian economic development, unless attention is given to the improvement of the relationship between business and government in Canada, which is now being clouded and strained by our present anti-combines laws and the methods used in their administration.

Among our assets, under your specific term of reference dealing with social capital, there has been for Canada, one that has been unique in the world. In a special degree, there has been a spirit of co-operation and understanding between Canadian business and government that has not existed in the United States where business and government have often been bitter enemies, or in the United Kingdom where policies of nationalization and socialization have produced battles between business and government over pretty large areas of the economy. This co-operative understanding in Canada was greatly fostered by the experiences and practices of the war years. Businessmen and civil servants worked together in the administration of wartime controls and, jointly, made them practical and effective. As a by-product of wartime co-operation there developed a considerable understanding of the problems of government by businessmen and of the problems of business by government officials.

And that, we say, was a valuable Canadian





asset. It is an asset that is worth preserving. It may be that other countries can afford the luxury of conflict between business and government with its attendant economic waste. Canada, we suggest, cannot afford it. Our trading position, with its heavy dependence on international trade is different to that of other countries, and in a world of currency restrictions, embargoes, commodity agreements and bulk purchasing, the Canadian government is involved, as never before, in the details of Canada's international trade. It is also necessarily involved in the development of our natural resources. It seems essential to have in this country a very close understanding between business and government, and co-operation between them in working out economic policies.

We submit that the co-operative relations that were established and strengthened by the experiences of the war years have seriously deteriorated. I don't think there is any use ducking the fact we think they have and are deteriorated. No doubt the passage of time has eroded some of the wartime relationship. We don't know the people quite as well now as the ones we knew when the war was on. But there is <sup>another</sup> more important and powerful factor that has created friction and misunderstanding between business and government in Canada, namely, the anti-combines laws and the way they have been administered in the last ten years.

It may be, I suggest, that members of this Commission - and certainly the general public -- don't realize the extent to which the activities of the Combines Investigation Branch have spread in the last ten years



through Canadian industrial life. The secrecy surrounding these activities has tended to obscure the steady infiltration that has occurred. Practically every major manufacturing industry in Canada has received the attentions of the Director of Investigation and many have been dealt with in published reports and in court cases. In the pulp and paper industry, as I said a moment ago, there are six separate cases or investigations now pending. In other industries there have been investigations or prosecutions of the following in the last three years; glass, rubber goods, matches, bread, maple products, soap, hardware, electrical wire and cables, gasoline, china and earthenware figurines, wire fencing, coal, television sets, motion pictures, confectionery, navigational instruments, hosiery, paints, overalls, household appliances, fertilizers and even milk and cemetery memorials. I think that they can very validly claim that they take you right from the cradle to the grave.

I think it would be difficult to think of any important segment of Canadian industry that has not been put to the trouble and expense of these investigations, had its privacy invaded and its reputation damaged. And for what tangible result? There has been no proof of any actual damage to Canadians from the industrial practices disclosed, and in fact the Combines Branch does not attempt such proof, or think it necessary. If an agreement within an industry is found to have existed, and if the area of agreement was sufficiently extensive and substantial -- to what extent is substantial you don't





quite know, but if they think it is -- it is concluded that there has been some prevention or lessening of the free competition to which the public is supposed to be entitled. It apparently makes no difference if the agreement is proven to have operated to the positive benefit of the Canadian people by keeping down prices during a period of inflation, or by increasing production during a period of excess demand. Similarly it makes no difference if the actions voluntarily taken by an industry were shown to be in accordance with declared policies of the Dominion government and at the public request of ministers of the Crown. If the doctrinaire concept of "free competition" has been infringed, a positive advantage to the public is of no consequence.

Yet, these are the industries that have created the Canadian "boom" of the last ten years of which we are all so proud. These are the industries that have contributed to a rapidly growing Gross National Product so fast, have added to the employment opportunities of Canadians, and have greatly enhanced both Canadian living standards and the volume of our international trade. Surely there is something unrealistic in a law which treats as criminals and subjects to the oppressive methods of criminal investigation, businessmen who have positively contributed to Canadian achievement. There is something impractical in this attempt to indict the entire economy.

Now, no one argues for a second that there should not be an anti-combines law - clearly defined and well administered. I personally believe and have always said that in our type of economy, such a law is valuable.





It can restrain business excesses, both directly by enforcement action and indirectly by helping the wiser members of an industry to curb a few of its members who may be less responsible and public-spirited. But the law should be clear, its objectives defined, and it should work in concert with, and not in opposition to, other government policies and national economic purposes. If we spend, as we are spending in the current fiscal year, \$469,103 in its enforcement, we should obtain some tangible national benefits - something more than the affirmation of an economic theory.

Now, we can argue that the present anti-combines law in the apparent and natural meaning of its words are clear enough. It talks in Section 498 about "unduly"; it talks in the Combines Investigation Act about "operating or likely to operate to the detriment of the public". It may be part of the trouble, when you read the law it sounds perfectly reasonable and sensible. You would suppose that the words "unduly" and "unreasonably" and "detriment to the public" would have made it clear, beyond doubt, that actual public results of the industrial agreement would be a determinant of the offense. That view was strengthened by the amendments as late as 1952 when they set up the new Restrictive Trade Practices Commission and told them in two sections that they were "to appraise the effect on the public interest of arrangements and practices disclosed in the evidence".

In fact, they are not carrying it out except in a technical and unrealistic way. In numerous reports the Commission approaches its task by quoting a legal dictum that first appeared in 1912 where it said that



there was "a specific public interest in free competition". It then says that any curtailment, a substantial curtailment of the freedom of competition must be detrimental to that public interest in free competition and that any possible public benefit from the industry arrangement is irrelevant. And this is how they get around the specific provision of appraising the effect on the public interest. All they do is appraise the effect on the theory of free competition.

There is no attempt made to appraise the practical or economic effects of the arrangement, no assessment of the actual effects on the public interest, and no recognition of the possibility that the industry's action may have resulted in strengthening the economy or assisted in the attainment of declared economic objectives of the Canadian government. It is submitted that this is not the kind of "appraisal of the effect on the public interest" contemplated by Parliament in the amendments of the Combines Act in 1952.

In the footnotes throughout this part there are several eminent and respected authorities quoted, one of them being the late Rt. Hon. W.L.Mackenzie King, who on two occasions made it perfectly clear that the point which I am contending was his original intention in sponsoring the statute. Back in 1910 he says:

"Another point I would like to make clear is that trusts and combines may not be injurious, that in some respects they may be profitable."

We have yet to find the present administration of the Combines Act finding any combine that is not injurious.





"It is the wrongful abuse of their power", he said, that is to be spoken of. Again in 1923 he said there had been a lot of misunderstanding in the public press about this. He said the Act had been criticized because it "...did not distinguish between good combines and bad combines. Well, that is the very distinction that is carefully made in the definition itself. Any combination, whether it is in the nature of a trust or mreger or the result of some agreement, which is carrying on its business in a reasonable way, not operating to the detriment of the public or against the interest of the public, would not come under the important provisions of this legislation". Well, they do. The fact that what it does in a reasonable way, the situation Mr. Smith used this morning, the question of reasonableness, is not looked at.

I suggest this, that one result of the present doctrinnaire approach of the Restrictive Trade Practices Commission and the Courts, to some extent, which don't consider economic results in their appraisal of the effect of business practices on public interest, is the senseless blackening of the reputation of Canadian business at home and in other countries. I thought one night, as to how this happened, why don't the Courts look at this thing, and it is perhaps interesting to suggest one reason. It all seems to stem from a casual statement written by an eminent essayist in England but not a particularly active lawyer, Sir Frederick Pollock who made the statement that, "My lady of the common law is not a professed economist". That has been picked up in every single case you can think of and is quoted



by the Courts as a reason for not looking at economic matters. However, whether professed economists or not, they have got a statute to administer which uses words like "unreasonable", "unduly", "detriment to the public" "appraise the effect on the public interest" and the like, and whether they are professed economists or not they can't get away from the economic implications of these cases.

I do suggest that there is a senseless blackening of the reputation of Canadian business at home and in other countries by these procedures. There is something ironical that the only clearly provable public detriment in recent cases is the damage done to the good name of Canadian business by the action of the Canadian government itself. For the maintenance and development of international trade, we need good repute in other countries, and particularly in the United States where public opinion is peculiarly sensitive to anti-trust laws. I might say there that there is never a report of prosecution of any part of the pulp and paper industry that doesn't get faithfully reported immediately in the bulletin of the American Newspaper Publishers Association, whether it has anything to do with newsprint or not.

At the same time that the Secretary of State for External Affairs is making speeches about the adverse balance of trade with the United States and Canada's need to earn more American dollars in trade and our Ambassador in Washington is protesting against U.S. trade restrictions against Canadian goods, these anti-combines investigations and prosecutions are making it more difficult to increase





our trade with United States. Here in Canada it is equally important for the maintenance and development of our economy that there should be public confidence in our business system and those who operate it. These are elements of public interest or detriment which under present attitudes and procedures receive no consideration. Of course, no one would argue for a moment that they should be used to suppress a prosecution where actual damage to the public interest has occurred. But, where the only public detriment established in the evidence is to some theory of free competition, the actual damage to business repute within Canada and other countries is surely relevant in determining whether a prosecution should be undertaken.

I think that in view of the apparent departure from the original intent of the legislation in the reports of the Commission and possibly also by the Courts, it may be necessary, if the original intent still holds, for Parliament to reaffirm it by definite statutory declarations that the gist of the offence is an agreement which has operated, or is clearly likely to operate to the actual and tangible detriment of the public. And at the time that such a thing were done it would be a very good idea to get away from this Section 498 and the Combines Investigation Act separation which, as you know, all the investigations are under the Act and all the prosecutions are under Section 498. That is where they have got the precedents and authorities. There are scarcely any prosecutions under the Combines Act. If this is a Combines Act let us put all the provisions in the Act





and deal with it under one Act. And that was so recommended by the MacQuarrie Commission but nothing has been done about it.

The report of the MacQuarrie Commission also points out that "combines legislation is not static and the need for periodic review is an important feature of it". That, they say, "might lead from time to time to necessary amendments as experience with working with the Act develops." While we have had ten very active years of experience with this legislation since the war and, it is submitted, a number of defects and undesirable features and unfairnesses in its operation and administration call for review.

I think, Mr. Chairman, even though the MacQuarrie Commission did, a few years ago come, the case is their recommendations were not in fact carried out, and it is a perfectly valid thing for your Commission to take a look at.

In the first place, these cases are absurdly lengthy and prohibitively expensive, for both the Crown and the accused. In a recent actual case, the evidence required 56 days, with the Crown taking 49, and the transcript of evidence extended to 8120 pages. There were approximately 3500 exhibits filed and the argument lasted a further two weeks. A judge and courtroom, with all its officials and attendants, were occupied for nearly four months and serious delays resulted for hundreds of other pending cases. The expenses of the accused industry, apart from any fines or penalties and apart from the expenses and lost time of the officers involved, were



large, actually they came to about \$200,000, and these are completely unrecoverable whether the case was won or lost.

That case was prosecuted under Section 498 before it was amended in 1952 by the elimination of the maximum penalty. Obviously it would have been much cheaper for the accused companies to have pleaded guilty and paid the fines imposed. But they did not believe they were guilty and had they so pleaded what would have been the result? I suggest to you that when a Canadian businessman adopts the cynical course of paying a fee to avoid prosecution for an offense he does not believe he committed, it is the beginning of the end of responsible enterprise in Canada. But if he is to defend himself under such procedures as these, he can only do so if he is both very angry and reasonably wealthy. A small company or an individual may not be able to face the ruinous costs of such a prosecution and, in full belief as to his innocence, may be compelled to plead guilty. That, I suggest, is coming dangerously close to one law for the rich and one for the poor, and even the wealthy are entitled to some kind of fair treatment under the law.

Now that the limit on the penalty has been removed, the position of business under this legislation and its present administration is even more unfair. He is faced with the decision as to which form of financial ruin he would prefer. He must choose between a prosecution unlimited as to time and extent, which may ruin him through the unrecoverable legal costs involved and a guilty plea with a penalty depending on the unlimited discretion of





the trial judge before whom the case happens to come.

Now what are the reasons for these cumbersome and expensive trials? There are two procedures adopted by the Crown that appear to be principally responsible: one is the method of proof adopted and the other is the time period over which the charge is laid.

In recent years almost without exception the Crown's case has been based almost entirely on documentary evidence and there are few, if any, witnesses called to testify. They don't try to prove public detriment therefore they don't have any need to call live witnesses. Documents are seized from the files of the accused companies and Crown counsel spend weeks in reading them to the Court, and it is a very dull business, I can assure you. These documents become evidence under Section 41 of the Combines Act, which I suggest is a provision that would offend ordinary notions of fairness in any statute, and in a criminal statute is shocking. It was passed in 1949 following an unsuccessful prosecution in which the Courts declared that the Crown had failed to prove its case; it had not taken the trouble to prove several essential facts that had been easily established by ordinary proof in similar cases. Then they asked the Legislature to patch up the mistake that was made. On that I would like to read a quotation of Mr. Justice Douglas of the U.S. Supreme Court:

"History shows that governments bent on a crusade or officials filled with ambitions have usually been inclined to take short-cuts. The cause being a noble one (for it always is)



"the people being filled with alarm (for they usually are) the government being motivated by worthy aims (as it always professes) the demand for quick and easy justice mounts. These short-cuts are not as flagrant perhaps as lynching. But the ends they produce are cumulative, and if they continue unabated, they can silently rewrite even the fundamental law of the nation."

Now this Section 41 is a lengthy and complicated section which provides in effect that any document proved to have been in the possession of, or on the premises occupied by one of the alleged conspirators will be admitted in evidence without further proof, and it will be prima facie evidence that the alleged conspirator had knowledge of its contents, that the facts recorded in the documents are true and that the statements made by any agent in the document were made with authority. Under that section a document written years ago by a junior official, or perhaps by a malicious or disaffected employee, and planted somewhere in the files, as to which the company and its officers may have no knowledge, becomes evidence against the company without further proof. Often the people who can explain it are dead, or their memory of the circumstances surrounding it has vanished. Not only is this evidence against the company in whose <sup>possession</sup> it is found, but under the rules of conspiracy law it becomes evidence also against other accused who may not have had the slightest knowledge and no way of knowing of the existence of the document or the actions stated in it. That seems to be, I suggest, a





direct antithesis of the principles of fairness toward the accused in criminal cases that are basic in our jurisprudence. No longer is the accused innocent until he is proved guilty; but he is held to be responsible for any statement in a mass of seized documents unless he is able to explain it away.

I submit that Section 41 of the Combines Investigation Act is a blot on our criminal procedure and should be repealed. Its provisions are quite unnecessary, they were unnecessary before and quite successful prosecutions were conducted, if the Crown was required to prove the effect on the public interest of arrangements and practices disclosed in the evidence.

This unfairness becomes even worse when you apply it to a great long period of years. In the actual case I was referring to a moment ago, the indictment covered a period from 1933 to 1952, and I notice in the last few days a new charge was laid covering exactly the same period in the wire fencing case, I think 1932 or '33 right up to '52, - a period of nearly 20 years and I suggest it is not an isolated thing. Documents written in 1933 by men now dead and dealing with transactions long forgotten are seized, and under Section 41 passed in 1949, some 15 or 18 years later, become prima facie evidence against the accused.

Then apart from Section 41, this practice of charging a conspiracy over a period of 15 or 20 years leads to lengthy, complicated, expensive trials, which clog the courts for months. The whole scope and character of industry surely has changed since before the war. The experiences of the war changed it, and economic and





physical changes brought about by five years of wartime controls have been very great. If an industry was guilty of an offense between 1933 and 1939, is it unreasonable to suggest that it should have been investigated and prosecuted in that seven year period? If it was not prosecuted then should it be prosecuted now, for a period where it can do little to defend itself? It is submitted that our anti-combines laws should contain a limitation period to which the charge would be restricted, and this period should not extend back into the period of wartime controls.

The next paragraph deals with a point on which I feel very strongly, having been involved in wartime controls and that is the practice of charging offenses against the anti-combines laws for the <sup>actual</sup> period of wartime controls. You <sup>will</sup> find a somewhat interesting and perhaps amusing quotation from a speech by Mr. Donald Gordon there, in which he appeared before a large group of Toronto business men and said:

"Give up all the practices that were necessary to safeguard your interests in the happy hunting ground of competitive business. ....Create monopoly practices, eliminate waste, frown upon selfish considerations of future markets, all in the interests of the need for immediate results".

Some two months after he had made that speech there were still some people in industry who were a little worried that the things they were being asked to do by the Wartime Prices and Trade Board would later be the basis of a



prosecution under the Combines Act, so they put their views before Mr. Gordon and his associates and there was a very substantial change made in order to meet that danger and we thought at the time it was going to obviate any possibility that there would be any prosecutions for the wartime period. And with that, Canadian industry went ahead and completely and wholeheartedly co-operated in the wartime controls over production, distribution, price, supply and those controls were in most industries so comprehensive that the area within which an agreement could operate was virtually nil.

We have a quotation here from the present Prime Minister of Canada back in November of 1949 where he says, better than I can, his view as to what ought to be done about this kind of procedure. He says:

"It was my view that the controls during the war period had put an end to what had gone on before...."

and goes on to say that he had perhaps a little more advantage than the Minister of Justice as he had lived through the period of wartime controls. He said:

"....It is my opinion that, if the controllers had been satisfied at the time that their directions were being carried out during that period, when for the security of this country and the security of Parliament, we had to have the co-operation of Canadian industries, it would not be proper for us to say that





"what they had done under the impression that they were serving this Canadian nation in a patriotic fashion should afterwards be made the subject of prosecution before the courts after the war was over".

Notwithstanding that clear statement of government policy by the Prime Minister of Canada, those responsible for prosecutions under the combines laws persist in laying charges and adducing evidence of actions taken by accused industries during the period of wartime controls. It is submitted that the legislation should be amended to make this impossible.

One of the greatest sources of resentment among business men toward the Combines administration is the manner in which investigations are conducted, and I don't want to make this too sweeping. I think that many times the actions taken by the administrators are very fair and very reasonable, and while you have such a law no industry or company can validly object to being investigated. But are there not some different and better ways to conduct the investigations? The present method is to send out a horde of officers who are armed with the equivalent of a search warrant and who descend on a man's office demanding to see all his papers. They spend days going through the files, selecting piece-meal those which favour their purposes and carry them off. They go through <sup>private</sup> desks and diaries, and as often happens some officials in their enthusiasm or prejudice or tactlessness go too far and do create bitter resentment, having its inevitable result. There is wide-spread



resentment among businessmen of this invasion of privacy and their treatment as common criminals before any offence is even presumed. The technique of searching private documents which developed in our criminal law to aid the Crown in getting evidence before a charge has been laid, is now used at the beginning of an enquiry when no charge has been laid and no offence has been established. If, as the Minister of Justice recently stated to me, more than 90 percent of the cases investigated are dropped without report or further action, the situation gets even worse. It means that nine out of ten of the people involved have had their private papers rifled and their privacy invaded without, as it turns out, any justification and often at great and irrecoverable expense and disruption of their businesses.

Is there no way to reduce this corrosion of the relations between business and government, as I assure it is being corroded. Most Canadian industries are responsible, reasonably public-spirited and anxious to live within the law. With most government departments their relations are close and friendly. If practices have grown up that are questionable, there are many cases where an industry would be quite willing to abandon them. In other cases a simple explanation might show that there was nothing objectionable in the practices. There is now no attempt by the combines administration to correct matters through informal discussion and voluntary action by the industry concerned. Indeed where practices have been questioned, it is difficult for an industry to correct them for fear that such an agreed change will itself be





taken as evidence of collusion. I tried once, without success. In at least one case where an industry had changed its practices well before an investigation started, the Restrictive Trade Practices Commission held that the abandonment of earlier arrangements was of little significance because it supposed that the discontinued arrangement "could be expected to have continuing effects even in the absence of further contacts". And I understand that in the new charge that has been laid in that case they are prosecuting for the period from something like 1932 to 1952, which was just before they stopped doing it, having stopped doing it did them no good. They are being prosecuted nonetheless for the period in which the actions were done. Even though before any enquiry or any investigation at all, they stopped.

The notion of voluntary co-operation between business and government, which those administering these statutes now completely reject, is not an original idea. It was suggested as a desirable objective by the present Prime Minister of Canada when, as Minister of Justice, he introduced the first post-war amendments to the Act in the House of Commons. He said at that time:

"The impression is that businessmen in general do not want to be lawbreakers, and if these conditions are inquired into and representations are made to them as to the likelihood of their being in breach of public laws they will most often desist and modify their proceedings in such a way as not to fall foul of those provisions of the law."





Well that doesn't seem to work. But I do say, and this is the most/<sup>completely</sup>relevant part to your economic enquiry, I do say that the basic reason for urging some change in our present anti-combines laws and their administration is something other than these rather technical and procedural matters. It concerns the nature of our economy and the role of government in economic affairs. I suggest that the issue of whether government should seek to regulate the economy or not is settled, however long we may still be debating. In Canada, and even in the United States under a Republican administration, this is accepted as a necessary and proper function of government. The issue now is how is it to be done -- what methods should the government use -- what are the scope and limits of its economic activities?

In the Canadian economy the long-range trends are strong and favourable. In any event they are probably in large measure beyond the control of government policies. But it is in respect of the short-range fluctuations that government can effectively act and should attempt to minimize the swings of the economic cycle. Rarely, if ever, are the forces of inflation and deflation in exact balance; one or other is always in the ascendant. During an inflationary period, the objective of government policy is to restrict price increases to a minimum and to achieve equitable distribution of goods for which the supply may be insufficient to meet the current demand. During a deflationary period the problems of government are the reverse -- the avoidance of disastrous price declines, the reduction of unemployment by some sharing of the



reduced demand, the maintenance in solvent hands of productive facilities which will soon be required to meet the needs of a generally expanding economy.

No doubt there are some limits on the constitutional powers of the federal government in economic matters, but usually means, quite effective ones, not necessarily the most direct and efficient, can be found, and there<sup>is</sup> some range of choice as to the policies that the government may apply. From the standpoint of businessmen there can be little argument that general fiscal and monetary controls are preferable to more specific interventions by government in the production, distribution and pricing of their products.

In periods of minor inflationary or deflationary pressures these fiscal and monetary measures may be sufficient to control the economy. But when the pressures become more severe, such controls may not be strong enough to avoid serious fluctuations. Sometimes more may be needed and the choice lies between control measures imposed by government and voluntary collaboration between business and government in line with declared economic policy. I suggest a responsible industry should be able to work together in a time of inflationary pressure to keep prices down. As in fact industry in Canada was asked for a number of years after the removal of wartime controls. Conversely when a recession threatens it should be able to assist the government in combatting unemployment by a reasonable sharing of the available business. In either case its





agreement to prevent or lessen competition should not be held to be "undue" and its combination should not be judged "detrimental to the public interest". At present such voluntary collaboration between business and government is prohibited by our anti-combines laws, as they are now interpreted and enforced. We are losing, I suggest, a valuable asset for the strengthening and reasonable regulation of our economy. In the next 25 years we are unlikely to have steady and unbroken economic advance and we will probably need all the abilities of government officials and businessmen to combat short-term fluctuations and thus to attain the maximum long-term opportunities that are open to us.

Businessmen - or at least the overwhelming majority of them - are not criminals. They are responsible generally public-spirited citizens, interested in their own and their country's welfare. The results might surprise the present administrators of our anti-combines laws if they were to try to enlist the voluntary co-operation of businessmen in eliminating undesirable business practices - which is the only valid objective of these statutes. At least the consequences of such an attempt could scarcely be more disenchanting than the results now obtained.

Then on the next page, Mr. Chairman, we make the submission to you, we apologize for certain items that have not been covered - many of them could be covered. We also apologize for the ones that have been covered at undue length but we do hope that maybe we can repair some of these inadequacies later.

However, as I think I said in opening, this



exercise in long-range forecasting has been, in our opinion, very much worthwhile. It may well turn out that one of the major contributions of this Royal Commission to the Canadian economy will be in the way it has compelled businessmen and industries to look, however hurriedly and inadequately, farther into the future than they usually look. Perhaps we, in this industry, will continue these long-term studies and repair some of the errors and omissions in this brief. Thank you, sir.

THE CHAIRMAN: Thank you very much, Mr. Fowler.

MR. LUSSIER: Just one question.

MR. FOWLER: Yes, sir.

MR. LUSSIER: In your brief you are very optimistic about the capacity of our forests to produce wood, pulpwood in particular, and doubling production. Now, you mention here at the same time the researches that your Association is carrying out in the industry. Do you think, Mr. Fowler, that as far as the forests are concerned that the researches, I mean the basic researches, not the researches which are being made now, are sufficient in this country?

MR. FOWLER: That the researches are sufficient?

MR. LUSSIER: Yes. I mean in the forests - for the forest increased productivity?

MR. FOWLER: I do not, sir. I would like to check with Mr. Pepler. I think both of us feel -- he is more expert in this than I am -- I think both of us feel that we are not doing nearly enough in research and in the application of the research. It is no use having





research unless you use it. There is a great deal, as Mr. Pepler suggested to me when we were writing this brief, there is a great deal of knowledge now which could be applied, and we could get started on this problem. But it is not being done, partly through lack of co-ordination. But I do think that more research is required, we feel in the industry that more research in the forestry field is needed and we propose to do something about it ourselves. But no one industry can do this job. We are going to have to have co-ordination that such as/suggested by this National Forest Protection and Development Board which we suggest or some other method.

THE CHAIRMAN: Mr. Fowler, on page 31 there is a summary of the overseas demand by regions which leads us to some of the important conclusions as to the probable increase in the production of the industry in Canada. These estimates you have outlined in your brief how they were arrived at, do you, yourself, feel that they are reasonable and not unduly optimistic? I am sympathetic to your opening statement yesterday that we should keep our sights high. On the other hand, we have got to keep our feet on the ground at the same time.

MR. FOWLER: Well, I agree with that, Mr. Chairman. I personally feel that we are going to have a 12,500,000 ton newsprint industry in 1980. Put it another way around -- I feel we are going to have demand on Canada for 12,500,000 tons in 1980. I am not quite as sure that it is going to follow the pattern that is outlined here. My guess is that we <sup>will</sup> take up most of the Canadian supply of newsprint, I think that is reasonable.





My guess is that probably the estimates in these figures are a bit on the conservative side, only a 50 percent increase. I think we will get over some of the present turmoils and upsets that go on in this industry somehow, and maybe the normal course of economics will go forward and will rise more rapidly than that 50 percent, in which case there won't be newsprint available which will be needed for the overseas markets, which may or may not be able to buy it. I assume there is a question in your mind as to whether the buying power is going to be there in these overseas markets.

You will remember, of course, that this Table 11, is only a total of overseas newsprint demand of those various regions and that it is only when you get over to ---

THE CHAIRMAN: Page 39, table 17.

MR. FOWLER: Page 39 --it is really when you get down to the table on page 39, yes, where the amount coming from Canada for other markets is 3,800,000 tons.

THE CHAIRMAN: That is about half the increase that you have, the total increase.

MR. FOWLER: That is right.

THE CHAIRMAN: In the anticipated expansion.

MR. FOWLER: Well, I think, as I say, my guess is that the second column on the United States is likely to be on the low, conservative side and may make up for any increases that may be too optimistic in the third column. And you must remember that this is just about the historical rate of growth, this doubling of Canadian.



THE CHAIRMAN: Another question: On page 56 -- and I think you give the answer on page 69 -- you are talking about the -- perhaps I should have put it this way -- we are hearing a good deal about the possibility and the desirability of further processing of materials in Canada. I suspect that there is a fair amount of wishful thinking and quite an absence of a good deal of information on the subject. In this section of your brief you do deal with the exports of pulp as pulp, and while you have expressed your views on that on page 69, I thought I would like to ask you to amplify it a little bit. Some of that pulp presumably is exported to the United States for conversion into fine papers and the reason is obvious that we can't export the fine papers because of the tariff.

MR. FOWLER: Well, just take that specific one if I could break in there. If you put an embargo on the export of pulp to the United States I don't think you could thereby compel them to take our magazine papers. I think that the rebuilding of the American forests has gone far enough, they have done quite a job on it, their wood supplies according to the latest forest service reports from Washington indicate that they have good wood supplies in the United States, and they would simply make the pulp we chose not to send them down there. We lose the sales of the pulp and we don't get any sales of the magazine papers. There is the odd time when you can work this racket, it is a tricky game, and if it can be done I would like to see it done, because we would sell that much more dollars worth if we make more fabrication. I think it is a very rare occurrence where you can by





processes of embargo or prohibition, change the course of other people's or other countries' buying habits. You might do it on some method of which you had an absolute monopoly or near monopoly, I suspect there though, that you would begin to get the intrusion of substitutes, alternative ways of doing the same thing. I don't really put this point about the emphasis on our primary natural resource industries merely because I happen to be associated with an industry which is in the field because don't forget there is a good chunk of the pulp and paper industry that is not in that field. I honestly believe, Mr. Chairman, that there is too much talk about pulling ourselves up by our own economic boot straps; we can do certain kinds of things by changing our economic policy. I think that we have to yield and our prosperity is going to depend on the flow of world forces and if you look at the Canadian economic history, the reason we took quite a while getting rolling is the fact that the world didn't need the things we had and there wasn't very much you could do about it; but now they do need them and we are lucky in that we can ride with that tide.

THE CHAIRMAN: Is there any substantial export of pulpwood as pulpwood now from Canada?

MR. FOWLER: Yes, I think there is about --

MR. PEPLER: Two to three million cords.

MR. FOWLER: Between two and three million cords, yes.

THE CHAIRMAN: Would your conclusions with regard to pulp, would you feel equally strongly about the



export of pulpwood?

MR. FOWLER: I think that in most cases that pulpwood is flowing across the international boundary to the place where it can be most economically converted. In other words, you have ---

THE CHAIRMAN: Was that not true in Ontario some years ago, when it was stopped?

MR. FOWLER: I doubt very much if it was true. I think -- first of all, I am not doubting now a good portion of it is taking place now, for example, at the head of the lakes, where you have got a company, a Minnesota and Ontario company on both sides of the border. And that is drawing on a natural wood area across the border there. It is something of the same kind of thing you have got down in New Brunswick.

MR. PEPLER: You have the same sort of thing in New Brunswick and in the lower parts of Quebec.

MR. FOWLER: Yes, where the movement of the wood to the American mills is a more efficient movement of the wood than to the Canadian mill. Now, going to the ---

THE CHAIRMAN: Does the reverse process take place anywhere where American pulpwood ---

MR. PEPLER: To a lesser degree, yes.

THE CHAIRMAN: How much lesser?

MR. PEPLER: Oh, quite a bit less. And that situation Mr. Fowler speaks of does not cover the total of two or three million cords which goes across; there is some of that wood which is going across the border which could be used by Canadian mills and it has been a matter of distribution under controls during the wartime period





and the vision of total market supply. There is a total market supply in the neighbourhood of five million cords, and most of it is, of course, from private lands because there are restrictions on the export of woods from Crown lands.

THE CHAIRMAN: I can understand the point as far as pulp is concerned but I must say that I find it less easy to appreciate the reason for exporting wood.

MR. FOWLER: I think it is less easy. I think that is a fair comment. I think it should be said about the Ontario case -- that has been pretty widely interpreted as an attempt to force pulp and paper production in Ontario. I think that may have entered into the thinking at the time but I think the real compelling factor which led to the embargo on pulpwood from Crown land was the fact that it was a forest conservation move, based on the fact that people who haven't got mills here, people who haven't got a stake in the country are inclined to be the worst forest operators, they get in and cut and get out. And that was the attitude that compelled some action in the interests of forest conservation.

I will say this, Mr. Chairman, I think this is a pretty dangerous game to play, this embargo game, because you will find that the relatively small advantage you may get from it will be used by other countries to justify actions that they take which may be much more damaging. Maybe you can play it sometimes, but it needs to be watched.

THE CHAIRMAN: Mr. Grauer says the question is who is embargoing who?

MR. FOWLER: Yes.





THE CHAIRMAN: Well, just on that point, I think on page 70 you made a statement that I asked you about yesterday that the simple rule still holds how the countries cannot buy from us unless we buy from them, and that is fair enough. I think that is a statement that is easily understood. But I wonder whether we remember sometimes in this country that two-thirds of our exports go to the United States and we have a deficit on current account that is running at the rate of -- well, I don't know what it is on an annual basis, it was 400 million for the first nine months of the year -- it might be five or six hundred million -- so it is not quite a question of not being -- my point is that I don't think the statement applies to the extent of two-thirds of our total exports in this country, and it seems to me that it may also be significant when we are talking in those terms, that while our exports are continuing to increase very substantially in absolute terms, they are tending to become less important as a percentage of the Gross National Product. In 1946 -- '39-'46 for instance -- it was around 20 per cent, leaving out the very high war years, and 1953 was 17.4 and 1954 was 16.8. It is a trend that is reasonable and to be expected. But I think it may perhaps over the years modify our thinking to some extent.

MR. FOWLER: I think it could. And I don't think that the export industry should be fighting to retain their percentage of the Gross National Product.

THE CHAIRMAN: No.

MR. FOWLER: I think we will probably have a more diverse and probably a more stable country if this



trend continues to a certain extent. But let us at least not stop this main dynamic in the development of a higher Gross National Product.

On the point that you make on page 70, this is one of the sections of the brief that we had written at greater length and attempted to condense and it is a bit too simple. I think you are quite right, but on the other hand don't forget that the reason the simple rule does not hold in the United States, that we are in fact able to buy from them more than we sell to them, is only done by the fact that we have this great capital inflow that has been coming into Canada, which helps to balance our accounts for the time being and while it lasts. Now, you could do the same thing with other countries if you can get a movement of capital.

THE CHAIRMAN: I don't follow you there. We are exporting much less than we import.

MR. FOWLER: That is right. That is right, we are buying more than we are selling.

THE CHAIRMAN: Yes.

MR. FOWLER: And we get the dollars to do that additional buying out of our capital imports. Now, if you have a capital import programme, whichever way it has to move because I get confused, but whichever way it has to move involving other countries, then you can do the same thing again. We could in this case sell more than we buy from, let us say, Italy if we were prepared to undertake a capital export programme to Italy. I don't quite see that one coming and therefore





I am thinking really of those other countries whose goods we need in order to enable them to buy our goods.

THE CHAIRMAN: I have one more question I would like to ask -- or several of them, I suppose -- but they are related to the section on forest policies.

MR. FOWLER: Yes, sir.

THE CHAIRMAN: You mentioned access roads.

MR. FOWLER: Yes.

THE CHAIRMAN: As in the desirability of more access roads being provided. Who should pay for them?

MR. FOWLER: Well, I don't think you can answer it in one sentence. I think not only is it hard to answer but I think there are differences of opinion on it. But I would suggest this, that there are certain types of main trunk roads that obviously have to be public roads. I think that most of the industry, the companies, "would favour the notion of private construction of their roads and looking after them themselves, but possibly with some tax allowances made for the construction of roads.

THE CHAIRMAN: By the Province or by the Federal government? I suppose the industry does not care.

MR. FOWLER: I think in that particular case it would mainly be by the federal government in the income tax law. There is a difference of opinion on it. I think a lot of companies are very anxious to keep the roads under their own control to prevent the dangers of fire and the like which come when the roads are fully open to the public.

THE CHAIRMAN: We heard the view expressed



the other day that the construction of roads or the increase in the number of roads which are open to the public had been a great thing in fighting fires in the Province of Quebec.

MR. FOWLER: Yes.

THE CHAIRMAN: More or less an opposite view.

MR. FOWLER: Well, of course, a good road system is terribly important in fighting fires and it is absolutely almost essential to do it.

THE CHAIRMAN: Then you referred in that section of the brief to the importance of classification in land use. Would that be a provincial responsibility?

MR. FOWLER: I think so, yes, that is right.

THE CHAIRMAN: Then you also referred to the importance of improving the efficiency of the farm wood lots. Who should take the initiative in that regard?

MR. PEPLER: Some work is now being done provincially and some work is now being done by the industry itself. The matter of public education is possibly a federal function and the co-ordination where desired is possibly a federal function.

THE CHAIRMAN: How likely is it, do you think, with education and encouragement, that you could get farmers to hold back? I don't know anything about the farmers in Quebec, but the ones who live near me in Ontario don't always take a 15-year forward view of things. They seem to be more interested in what is going to happen this year, this week.

MR. FOWLER: I think Mr. Pepler might be





able to tell you something very briefly of the way in which it is going, this tree-farm movement is developing. Now, I will start by saying they have been through this in the United States and have been extraordinarily successful in their development of tree-farm programmes.

THE CHAIRMAN: That is enough. I would like to hear about it, but I don't want to monopolize all the time and I would like to ask one more question. You did touch on taxation, Mr. Fowler. Have you any specific suggestions that you would care to make on the subject of the taxation of this industry?

MR. FOWLER: No, I think that falls within the category of very important functions that fall within your jurisdiction and which we have not done enough homework on. I would like to say it but I am not ready.

MR. STEWART: Mr. Fowler, I am not sure how far our terms of reference cover specifically the combines investigation legislation, but it does seem to me that we are concerned with the climate -- I think that is your own word -- in which industry may expand to serve the public interest, and while I don't want to direct my questions in terms of the anti-combines law but in a more general way, there are a few things I would like to try and get from you. In the first place, you indicate that you do believe that it is necessary to have some kind of anti-combine legislation.

MR. FOWLER: Yes, sir.

MR. STEWART: You would wish the kind of legislation under which business would know what they may do and what precisely would happen if they did those





things which they may not do. That is good legislation, isn't it?

MR. FOWLER: Yes, I think so. I am not sure that the full objective that you suggest can be attained in this field and there may have to be some fairly foggy areas where actions cannot be spelled out as being legal or illegal.

MR. STEWART: Yes. I may come back to that in a minute. This, of course, recognizes that we cannot always expect that decisions in industry will conform to whatever the concept of public interest is.

MR. FOWLER: Yes.

MR. STEWART: I wonder whether in your view there is any possibility of defining the kind of business structure in which that kind of action is more likely to occur than in industries with a different kind of structure? What I am getting at, is it possible to reduce from -- you referred to the whole gamut of industries --

MR. FOWLER: Yes.

MR. STEWART: Which have been investigated. Now, is it possible to limit the area concerned in terms of the structure of the industry? Is that a useful approach to it?

MR. FOWLER: When you say structure of the industry see if I understand. Are you thinking in terms of its structure as to the kind of industry it is in, whether it happens to be the natural resources industry or agriculture or that kind of structure? What do you mean by structure?

MR. STEWART: Well, its organizational



structure.

MR. FOWLER: Yes.

MR. STEWART: I mean, I would suspect that if there are 5,000 firms in an industry, we might be, on that ground alone, less concerned than we would if there were one or two firms.

MR. FOWLER: I see what you mean. In other words, the question of the monopoly characteristic. Well, it is possible I think that those structures, different structures of industry, are created by the character of the beast you are dealing with. In other words, you are going to have in the steel business, for example, relatively few firms, inescapably, and yet there may be very fierce competition that goes on within that area. You are going to have very few chain stores relatively, but no one could argue that there is not a lot of pretty vigorous competition between Eaton's and Simpson's and the others. And we may also have an industry with a great many in it where the competition will not really be very active, they will all follow the leader. I don't think this the ---

MR. STEWART: You don't think that is the answer.

MR. FOWLER: I don't think so. I mean, I think we ought to watch monopolies very carefully. I thought we ought to watch the oligopoly thing which is similar to monopoly. I think we ought to be prepared to look pretty closely at them. But I think that the theory which Mr. Galbraith puts forward as to the countervailing power theory is a pretty valid one and the economic system will take care of most of these





things.

MR. STEWART: Then, the answer appears to be that outside of public utilities, it is possible that this conflict between the business decision and the public welfare could occur anywhere?

MR. FOWLER: That is right. That is right. It could occur anywhere I think. Going back to your question about the definition of the law, I believe that any industry that chooses to make agreements which do limit competition should be prepared to justify them in terms of the public interest. If they are allowed to put forward their reasons for saying it is in the public interest, if they are allowed to prove in fact they acted to the public good, if it was declared they were not guilty in such cases, that is all they can ask. In other words, if you don't want to justify your actions in terms of the public interest then don't make agreements.

MR. STEWART: My next point is this: I think I understand your argument about the apparent conflict between the wording of the legislation and the decisions of the courts. Your answer to all this is that rather than decisions being reached, as you put it, on doctrinaire economic theory, that actions be judged by their effects?

MR. FOWLER: That is right.

MR. STEWART: Now, is there any country to your knowledge in which this is the substance of the anti-combines legislation?

MR. FOWLER: I am a little rusty on the



comparative law on this subject in other countries. I believe it is very much the practice now used in the United Kingdom.

MR. STEWART: That is my understanding too.

MR. FOWLER: Yes.

MR. STEWART: I wondered whether you felt yourself in a position to say whether this could be said to have improved the climate?

MR. FOWLER: I don't know that it has been going under this new system of theirs long enough to have a fair judgment. These have been pretty unusual economic times in the United Kingdom. Maybe it is not a fair test. Such meagre information as I have on the subject is that the U.K. system is at least working out pretty well as far as relations between government and business are concerned with which I am dealing. They, of course, don't start from the backlog of bad relations which exist in this country today and exist even more so in the United States. But I do feel that an approach to this thing based on the notion that we are trying to see who has been hurt, has anybody been hurt, and what has been the over-all question of hurt or no hurt, is the proper approach, and I think it was the one that was intended. But where you have a government asking an industry, as they did ask, to keep prices down, -- in so many words, "Remember, if you don't we will put price control back on you", -- and they worked together in order to keep prices down, and then they get into court and proved in fact that they did keep prices down below what





they would have gone, below what they could have charged in their straight cost picture, and still found guilty ---

MR. STEWART: You would agree that it is pretty difficult to spell out the sort of control by which you would judge the effects. I think that is perhaps why you said you could not have your legislation too precise because there is judgment involved.

MR. FOWLER: I think that is right. I tried a few years ago to draft out something in the way of recommendations of things that should be specifically prohibited or should be specifically permitted, and really got into trouble about it. I think if you insert the test of actual public detriment and make it apply and not some doctrinaire concept of what is public detriment, you would do most of the job or at least you will improve it substantially.

MR. STEWART: My last question is in this way -- there are others than essayists, some economists with pretty substantial reputations, who have had a good deal to say about the kind of conspiracies which occur when businessmen get together -- my question is this: Is there any way in which better information as to the way in which business does behave that might relieve the minds of the public that their behaviour is always conspiratorial and detrimental to the public interest?

MR. FOWLER: I am grateful to you for suggesting it. Of course, there is much that should be done. This is getting into the whole field of public relations, of course; the importance of indicating the change that has taken place in the whole management of





business. The managerial revolution idea has not even begun to be properly understood. But if you are suggesting to me that business should do a lot more in terms of stating its case, justifying itself and explaining how it acts, I would agree whole-heartedly with you. I think much more should be done.

THE CHAIRMAN: Thank you, Mr. Fowler. We would like to stay on this subject -- I don't mean on the combines subject, I mean on the pulp and paper industry -- for a long, long time, but we are having studies made which you are helping us with and I think this is perhaps the point to adjourn this discussion.

MR. FOWLER: I hope you will call on us if there is anything we can do further.

THE CHAIRMAN: Thank you, we will meet again at 2:30.

(At 1:10 P.M. the Commission adjourned until 2:30 P.M.)

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A F T E R N O O N   S E S S I O N

APPEARANCES:     Mr. Donald Gordon, C.M.G.,  
                         Chairman and President,  
                         Canadian National Railways.

                         Mr. N. R. Crump,  
                         President,  
                         Canadian Pacific Railway Company.

                         Mr. G. R. McGregor,  
                         President,  
                         Trans-Canada Air Lines.

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THE CHAIRMAN:    Shall we come to order?

Mr. Gordon, it is very good of you to take time out of a busy life to come here and give us the benefit of your views and experience on the future of your most important industry.    If you would like to proceed, we will mark your submission Exhibit 113.

MR. GORDON:    Mr. Chairman and Commissioners:    I welcome this opportunity, both personally and on behalf of the management of Canadian National Railways, to appear today before your Commission.

What I have to offer is not so much a formally documented official submission but rather a statement aimed at sketching a perspective in such matters as the probable demand for rail service, the present and future role of the railways in Canada's economic development, and the kind of framework within which the railway industry can most effectively contribute to this country's growth.

I will say at the outset that so far as I am able to see into the future I find no serious





threat to the dominant position of the railways in the field of land transportation. This unqualified confidence stems from the fundamental technical characteristics of the railway and the inherent economic advantages which flow from them. The railway is a dependable year-round mass producer of transportation operating at a steadily improving level of efficiency. The trend is clear when one looks back over a substantial period of years, through a cycle of war and peace, prosperity and depression. The year 1928 -- the peak traffic year of the inter-war period -- provides a reasonable basis of comparison with the year which has just ended. The record shows that in 1955, Canadian National produced 58 per cent more ton miles of freight with 12 per cent fewer locomotives and 6 per cent fewer freight cars of all kinds. Over the same period gross ton miles per freight train hour -- the best single index of transportation efficiency -- showed an increase of 90 per cent.

This trend, accelerated in the postwar period, can be expected to continue, for standing behind the substantial research activities of the railroad industry there are the technical resources of a vast group of industrial enterprises who look to the railroads as a major market for equipment and materials of all kinds. Only seldom does improved technology take a dramatic form, but behind the scenes, in the techniques of maintaining our equipment and roadbed and track structure, in controlling and marshalling trains and so on, a steady revolution is even now in progress.



Thinking specifically of motive power I shall not attempt to forecast the time when the gas turbine will reach the peak of development, or when the problems of safety associated with nuclear power will be solved; it is altogether likely that at any given time there will be room for several types of motive power, each with an advantage in its own field. One of these types may conceivably be a coalburning gas turbine, but the coal-burning steam locomotive of the reciprocating type that we know today is doomed to extinction. Whatever the future may bring, the fact that units of motive power are seperable from units of carrying capacity means that the railways are in a flexible position, able to adapt to almost any type of power.

#### 1 - The Prospective Demand for Railway Service

Despite the development of competing forms of transport -- pipelines, air freight and road transport -- and the impending completion of the St. Lawrence Seaway, there is reason to anticipate from the experience of the past quarter century that the demand for rail service, expressed in terms of ton miles, will grow at least proportionately to the increase in population. Mr. Chairman, I should like to interject this does not mean I predict we will hold our share of the total transportation market, nor that we will grow in proportion, for example, to the Gross National Product. The immediate result of the completion of the Seaway will be a loss of bulk traffic, and to a much lesser extent package traffic, to carriers on the Great Lakes-St. Lawrence System; but this must be viewed against a rising trend of national production, and considering the expansion of industrial output that can be expected to follow from the availability of cheap power in the St. Lawrence Valley, the loss to Canadian National can be thought of in terms of a temporary dip





considering the expansion of industrial output that can be expected to follow from the availability of cheap power in the St. Lawrence Valley, the loss to Canadian National can be thought of in terms of a temporary dip in the trend line.

Looking ahead to the year 1975, and assuming by that time that Canada's population will have reached twenty-four millions then on the further assumption of full employment it can be expected that the volume of Canadian National freight traffic will increase by about 60 per cent over the next twenty years.

Of course any such forecast needs to be carefully qualified. Apart from the premises which I have already mentioned it is clear that the transportation requirements associated with any given level of industrial production or Gross National Product may vary considerably. I also want to make clear that the figures I have used relate to volume of output and not to our freight revenues. In this respect one must reckon with a secular decline in the revenue-producing quality of traffic. This has been to some extent masked by the effects of general price inflation, but it is nevertheless traceable to basic changes in the "mix" of traffic as well as the pressure of highway competition on the high grade traffic. Looking to the future, the railway's ability to raise revenues from an increasing volume of traffic will be affected by a growing squeeze from competitors operating throughout the whole range of commodities.

Now, Mr. Chairman, with your permission





to depart from the text for a moment, you will see in the printed submission before you that I have discussed some of the qualitative factors bearing on the demand for Canadian National freight services. I would suggest in order to save time that you may wish to accept this portion of the statement as read and if that is satisfactory I shall resume reading at the last paragraph on page 5.

THE CHAIRMAN: Yes.

MR. GORDON: Looking to the course of economic development in the future it is encouraging to see the many indications that communities both new and old are preparing to plan for their growth in an orderly way. Canadian National, as the servant and partner of industry, is keenly interested in a forward-looking planned approach to urbanization, one which makes adequate reservation of land suitable for industrial use and capable of being served effectively by the railway. Canadian National welcomes, and has given effective encouragement to, the creation of industrial parks positively zoned for industry, because in addition to other benefits the concentration of industrial sites makes it possible to plan an efficient layout of trackage without the interference and expense associated with grade crossings on city streets. The Canadian National is also anxious to coordinate with town planning authorities its long term requirements for major marshalling yards and other terminal facilities. There is scope, too, for cooperation and mutually advantageous arrangements between the railway and other



terminal facilities. There is scope, too, for cooperation and mutually advantageous arrangements between the railway and other enterprises concerning in the provision of commercial facilities in the community. The Montreal Terminal Development is, of course, on a scale that is unique in Canada. but it does illustrate the point. In most communities the railway has passenger stations and other facilities that occupy strategic central locations, and Canadian National will always be ready to consider any proposal for a more effective joint use of the potential site value, providing of course that the railway's ability to serve industry and the travelling public is not thereby impaired. Experience has shown that it is practicable to integrate passenger terminals with major commercial structures capable of providing valuable space for offices, stores, and other purposes, and I believe that this type of joint development offers promise for the future.

A railway of C.N.R.'s dimensions is not simply another industrial producer but a part of all industrial production -- a conveyor belt, so to speak, that links together successive stages in the production process from the gathering of raw materials to the distribution of final products. Railway costs in the last analysis are part of total production costs, and the railways are no less dependent on external markets than are the shippers of export commodities themselves. The joint interest of producers and carriers points the way to the further development and use of specialized railway equipment as a means of reducing handling costs







and effecting a smoother flow of materials in and out of the plant, with consequent improvements in productive efficiency. Canadian National officers have, for example, designed a new auto-transporter and a new type of pulpwood carrying car, and in the course of time will study, in cooperation with interested shippers, the joint benefits to be obtained from a more extensive use of specialized equipment in other types of traffic. The future, I believe, holds a promising potential in this field.

#### 11 - The Railway Role - Past and Present

It may perhaps be inferred from what I have said so far that the railway's role in the Canadian economy goes beyond the purely commercial function of providing service for a price with the hope of a profit. The railway, as I see it, has a developmental role arising from the "external economies" associated with the provision of rail service and the attendant benefits of cheap mass transportation. The value to the economy as a whole of a new branch line is often very considerably understated by the profitability of that line reckoned in terms of the commercial accounts of the railway. This in turn is a reflection of the fact that initial and fixed costs are a relatively high proportion of total railway expenses, and the fact that rail transportation is characterized by the economies of large scale production, so that additional units of traffic can be handled at a very low marginal cost.

In the past, when the railways had a functional monopoly on land transportation, it was



possible while holding to the touchstone of corporate self-interest, to play an important role in economic development. Over many decades there was developed a rate structure in which there was a very wide differentiation of rates correlated with the ability of traffic to bear transportation charges. Generally, this meant that the basic commodities of low value in relation to bulk were charged relatively low rates, and the high-valued processed or finished goods were charged relatively high rates. By this means the railways were able, within the limits of their income account (that is, the need for balancing total income and total outgo), to stimulate economic development in a way that would not have been possible under a policy of average pricing. This rate structure was able to support operations that were initially unprofitable -- as was typically the case in respect of new branch lines. Of course, even under conditions of functional monopoly the discrepancy between corporate income accounts and the national income accounts remained, but I shall return to this point at a later stage.

Meanwhile, the advent of commercial trucking has had a profound impact, not only on the commercial aspects of railroading but on the ability of the railroads to carry out the developmental function. The reasons for this are twofold; first because the truckers have naturally aimed at the most profitable traffic, thereby threatening the ability of the railroads to quote developmental rates to marginal producers, and secondly, because the commercial risks





attendant upon the construction of a new branch line have been enormously increased by the probability that a highway will be constructed on a more or less parallel route, with the result that the traffic created by the railway would immediately become subject to the pick-and-choose operations of the competing truckers.

Nor is this the end of the matter, for it can be demonstrated that the truckers are even now carrying a very substantial amount of traffic that could be carried by the railways at less cost -- in the sense of production cost, not "cost" to the shipper. This situation persists essentially because the railways are prevented by a complex of outmoded regulation from competing with full effectiveness for the available traffic. To this extent, and in addition to the inhibitive effects on economic development, the economy as a whole is worse off because the total transportation bill is higher than it need be. The present situation is one which finds the railway industry preoccupied with the struggle for viability.

### 111 - The Criteria of Policy

It is my belief that a sound transportation policy for the future should embody the following principles:

- (1) That the cost of rail transportation as it appears to shippers in the form of freight rates, should fully reflect the inherent economic advantages of rail transport.
- (2) That decisions in respect of the





construction of new rail lines should be viewed from the standpoint of the national accounts and not simply from the narrow commercial standpoint as it emerges from the railway's corporate accounts.

- (3) That nevertheless it is important, in the case of Canadian National, that the corporate income account should at least be balanced; that management should be free to act within the dictates of the enlightened self-interest of the corporation, and that the dollar yardstick should remain as a guide to managerial decisions.

#### The Regulatory Framework

The first objective calls for recognition that the growth of road transport to its present stage of operations has opened a new era in our transportation history, an era of competition which was not contemplated at the time when the basic framework of regulation was laid down about half a century ago. At that time, as I have suggested, the railroads had a virtual monopoly in the field of land transportation, and it was this very situation that made it practicable and sensible for the railways to operate under a highly differentiated rate structure in which basic commodities moved at less than average



rates, and compensating revenues were found by means of higher rates on "merchandise" traffic. For all practical purposes, by means of semi-judicial concepts of "just" and "reasonable" rates, the regulatory authorities determined the extent to which this merchandise traffic could be called upon to provide the railways' balancing revenues; in other words, they were able to determine the manner in which the railways' overhead cost was to be spread over the whole range of traffic. Regulation was introduced, in the absence of the self-governing mechanism of competition, to balance the interests of the shippers on one hand and the carriers on the other. But, with the advent of commercial trucking on a large scale the rationale of this system broke down. The trucker operates on rates closely associated with the costs of providing service, and these costs on the average can be taken at 5 cents per ton mile. The practical effect, therefore, is that the railways are no longer able to quote rates above highway transport costs, since shippers will, naturally, shift their traffic to the trucks at the first opportunity. It is no longer feasible for the regulatory authority to determine what contribution can be made to rail revenues by the high valued traffic; that determination is being made by the forces of competition. Regulation cannot help -- indeed it can only hinder the railways in the competitive field.

There is, therefore, a vital distinction to be made as between traffic that is essentially tied to the rails, and traffic that is competitive with road transport. In the truly competitive field the





concept of a "just and reasonable" rate, it seems to me, is simply not applicable -- unless one is prepared to define a competitive rate as being "reasonable" when it attracts business, and as being "just" when it recoups at least the out-of-pocket costs of carrying the traffic in question. To compete effectively railway management must have the discretionary power to apply their best judgment to the situation at hand, to determine the price of their service, and the conditions under which service is offered. By the same token, it is important that there should be the utmost flexibility in administrative procedures for adapting to the individual circumstances. The shipper who has a ready alternative cannot be expected to wait patiently upon any regulatory formalities that must be satisfied before the railways can change their rate or service pattern; nor is he likely to be interested in the fact that under existing legislation an elaborate justification may be required for a competitive rate quoted by the railway. Many of the requirements of regulation that are harmless enough in the sheltered world of captive traffic become in varying degrees a nuisance and a burden in the battle for competitive traffic. In some instances obligations intended to protect shippers have the effect of protecting the railways' competitors. I suggest therefore that in the public interest there are only two items of regulation which retain their justification in the competitive field -- the requirement that rates should not go below out-of-pocket cost, and that rates in effect should be made known to the shipping public. With these safeguards



I submit that it should be left to the railways to reflect, in the various combinations of price and service offered to the public, the inherent advantages of rail transport. I submit further that in so doing the railways, while they may properly lose to the trucks some of the traffic they are now carrying, will regain a good deal more traffic, and thereby maximize in the competitive field the contribution of this traffic to the common and overhead expenses of running the railroad. It follows, therefore, that such a policy would act to the advantage of shippers who now have no practical alternative to rail transport; in other words with a greater contribution from the competitive traffic there will be so much less to be recovered from the non-competitive traffic or from the general taxpayer.

I repeat that it is important to distinguish in the matter of regulation between the competitive and non-competitive traffic. In the competitive field I have proposed a minimum degree of regulation, one which will place the railways more nearly on an equal footing with commercial road transport, and one which will provide the framework for a vigorous and orderly competition between road and rail carriers. In time, the same framework might be extended more generally to govern the competitive relationships between all forms of transport. Meanwhile railway regulation in the comprehensive and traditional form retains its original justification where the elements of functional monopoly are still to be found -- that is to say, in respect of traffic that is for practical





purposes tied to the railways. Here regulation must enter the picture to ensure, among other things, an equitable distribution of the railways' common and overhead expenses amongst the users of rail service.

All of this, of course, raises at once the question of how a division is to be made, for regulatory purposes, between competitive and non-competitive traffic. I do not believe that a distinction can be made in terms of the type of commodity, or the geographic area, and therefore I suggest that an approach along the following lines is both practicable and desirable in the near future:

- (1) The railways should be given freedom to set rates based on ordinary commercial principles of pricing, subject to the requirement that the rates must be remunerative and made known to the shipping public. This freedom should become the general rule, subject to statutory rates and exceptions in those cases where upon complaint shippers could show that they had in fact no practical means of transportation available other than the railway.
- (2) These changes, once determined in detail, should be held in abeyance for a period of (say) eighteen months during which time the Board of Transport Commissioners would be able to rule upon the exceptions which were claimed initially. This transition





period would also give the railways an opportunity to organize and prepare themselves for a new and more effective approach to competitive pricing.

I appreciate that this proposal in its bare outline leaves many questions unanswered, but the central idea does, I believe, provide an acceptable design for the future while recognizing the realities of the present day problem. I submit it for your consideration and with the hope that it will also be the subject of serious public discussion.

#### The Developmental Function

The second principle which I suggested earlier should guide transportation policy for the future, relates to the discrepancy between the railway's commercial accounts and the national income accounts. There is involved not only the matter of new rail services but also those cases in which existing rail operations are unprofitable from the standpoint of corporate accounts although justifiable in terms of the community or the national interest.

#### New Branch Lines

In respect of new branch lines the general nature of the discrepancy between the railway commercial accounts on the one hand and the national income accounts on the other is illustrated by the table as set forth below -- and I would ask your permission to take the table as read as is indicated in the brief.



There may, of course, be formidable difficulties in the way of obtaining an accurate estimate of consequential changes in national income, but I am concerned at this point with the major factors which are relevant to policy decisions. Following this analysis, if the net increase in national income exceeds the indicated loss on railway account then there is a prima facie case for a subsidy.

In recent years the Federal Government has recognized the limitations of commercial railway accounting as a guide to economic policy, and in fact have contributed by the sharing of construction costs to closing the gap in the railway's income accounts in the case of the Lynn Lake and Chibougamau branch lines. This policy, I submit, is economically sound, and the management of Canadian National considers that it warrants support and confirmation by this Commission. If carried forward into the future, such a policy, among other benefits, will have a very important catalyzing effect on the economic development of the Canadian northland, the last great frontier of the western world.

#### Unprofitable Rail Operations

In a free market economy it is a commonly accepted principle that business enterprises may, at their own discretion, curtail or abandon those segments of the business which are incurring direct losses. This privilege has long been denied to the railways because of the special position they have occupied as public utilities enjoying a de facto monopoly; in return the railways have been permitted to recoup their revenue deficiencies





through the medium of the rate structure. In these circumstances railway losses on certain of their operations could be heavily discounted by the regulatory authority when measured against public convenience and necessity; the carriers were made whole financially, and since the burden was taken up by all patrons of the railway -- a group that was indistinguishable from taxpayers as a whole -- it meant that the losses were borne as a national overhead.

But with the large scale provision of all-weather highways and the phenomenal growth in the registration of buses, trucks and private automobiles this situation changed drastically, and today the direct users of rail service can no longer be identified with taxpayers as a whole. Moreover these highways have been superimposed in a grid-like network upon the existing pattern of railway lines, so that rail service can be either paralleled or short-circuited by motor vehicle operations. This, in addition to the fact that C.N.R. branch lines were never designed as an integrated feeder system, means that Canadian National now faces a problem of rationalizing the railroad plant. Our planning for the future must be based upon the premise that highway transport is, or will be, available to every population centre of any consequence in Canada.

The action required, will of course, depend on individual circumstances. It will certainly involve further reductions in service and line abandonments, but it may also call for the construction of short connecting links between adjacent lines to provide



for a more effective routing of traffic, or the establishment of coordinated highway service, where this is the most economical method of improving the basic rail service. For this reason it is important that the railway should, as a matter of right, be permitted to operate supplementary vehicle service on the highway in order to initiate or complete the movement of traffic by rail. Canadian National does not, however, intend to enter wholesale into road transport business as such.

In the course of dealing with unprofitable operations, the discrepancy which has already been pointed out between the railroad's accounts and the national accounts may again become apparent. Circumstances may arise, that is, where the abandonment of rail service will produce savings in the Canadian National income accounts which are more than offset by losses of production and employment in the affected industries. I have already illustrated the situation as it affects new branch lines. This is the reverse side of the same coin. In principle the same considerations apply; if the railway is to be denied the opportunity of realizing substantial savings by the abandonment of hopelessly unprofitable services, and if the burden on non-competitive traffic is straining the limits of tolerance, then there is a prime facie case that the railway losses should be borne as a national overhead by means of subsidy.

I feel bound to say, however, and with special reference to this context of deficit operations, that whatever arguments may be made in logic for the payment of subsidies, there is in my judgment the risk





that they will appear as the all-too-easy solution of awkward problems stemming from inevitable economic change. In these circumstances subsidy payments contain the seeds of inefficiency. This is one of the reasons why I do not wish to appear in the role of an active advocate of subsidies; throughout this statement I am concerned only with the circumstances in which the question of subsidy becomes relevant.

The problem of the commuter service is a special case within the general category of unprofitable operations. By its very nature the benefits of such a service are highly localized. It is true that, at present, passenger service at commutation rates is provided by C.N.R. at only a few centres in Canada namely: Halifax, Saint John, Quebec, Montreal and Toronto. There is, however, considerable pressure for the extension of commuter service, and with the development of urban areas it can be expected that this demand will continue to grow. Our examination of this situation has pointed beyond any shadow of doubt to the conclusion that railway commuter service is inherently unprofitable at any level of fares that commuters are willing to pay. Having said this, I recognize that the trend is towards the decentralization of urban communities and the establishment of what might be called satellite residential districts within metropolitan areas. This, together with the very heavy cost of providing city streets and arterial systems adequate to the needs of motor vehicle transportation, explains why there will be a continuing demand for railway commuter service. In





these circumstances, and if our losses are made good by contractual arrangements at municipal level (providing for payments by those who benefit) the Canadian National is prepared to design commuter service adequate to the demand. I offer this suggestion as being consistent with the principles enunciated in this brief, and as being the only practical solution that presents itself to me, looking to the future.

#### The Commercial Function

The report of the Royal Commission on Transportation (1951), in referring to the co-existence of a publicly owned and privately owned railway in Canada, made the statement that:

"It is part of the National Transportation Policy that the two great systems shall have the opportunity to operate side by side, in order to provide the requisite services to the country and its people and at the same time to serve as a check and a balance on each other, without destroying the opportunity of the privately owned road to live and progress and to earn a fair revenue."

It is a natural corollary of this policy that the Canadian Pacific is used by the Board of Transport Commissioners as the yardstick for determining the level of freight rates. For Canadian National, the minimum financial objective, as it has emerged from the capital revision plan brought into effect on January 1, 1952,



is that on the average of good years and bad the System should no longer be in a deficit position; that is to say we should on the average be able to pay all our operating expenses and fixed charges.

While it is too early to provide a close estimate of Canadian National financial results for the year 1955, nevertheless it can be said that over the four-year period (1952-55 inclusive) that has elapsed since the revision of our capital structure, the System will show a cumulative deficit position in the order of \$20 million. The figure is necessarily an approximate one, but it does emphasize the degree to which, in all the circumstances, our revenues have fallen short of meeting the objective I mentioned earlier.

I have already referred to the contribution that is being made by increased operating efficiency. While this contribution is substantial it is not sufficient to solve the problem. I have advocated that the railways should have a free hand to compete more effectively with road transport and I believe that, in time, it will be possible to increase the revenues from this type of traffic. Meanwhile, one can no longer take for granted the ability to recover through the medium of the rate structure losses incurred in unprofitable operations -- whether these losses are occasioned by unremunerative rates, or by the passenger business, or by deficit-ridden branch lines. If having done all that is within the area of their discretion, railway management is unable to obtain a sufficient level of revenues, then there remains in







logic only two courses of action -- either to permit higher rates on non-competitive traffic (whether it be on basic commodities moving in domestic trade or to foreign markets), or to pay federal subsidies, whether these subsidies are identified with movement of particular commodities, as in the case of the coal subventions, or in respect of traffic from a given area as in the Maritime Freight Rates Act or between regions as in the case of the "bridge subsidy."

The Canadian National management as such is not in a position to initiate any solution to revenue problems of this kind other than one which rests upon the principle that the total cost of providing rail service must be recovered from the users. It is recognized that a choice between the various alternatives described above introduces a number of policy considerations which may modify this principle.

#### IV - Summary and Conclusion

The railway industry is presently passing through a difficult stage of adjusting both their facilities and their traditional rate structure to the realities of highway competition. I have urged that this adjustment should be facilitated by giving the railways a maximum degree of freedom so that the competitive traffic may be divided between road and rail carriers in accordance with their relative efficiency. Increased earnings in the competitive field will relieve the burden of cost that must otherwise be carried by shippers in the non-competitive segment of traffic, wherein there is to be found the majority of instances



where economic development is dependent upon the cheapest possible transportation. I have suggested too, that the value of rail service to the economy as a whole is not adequately reflected in the railway's corporate income accounts, and in special circumstances such as the construction of a new line a subsidy to the railway may well be justified. At the present time, however, all other issues are over-shadowed by the managerial problem of securing adequate net revenues under conditions where the revenue-yielding potential of rail traffic is limited. The only course of action open to management is to continue to strive for growing efficiency, to curtail or abandon unprofitable operations, and to call upon the users of transport to meet the remaining essential costs. I need hardly add that any further inflation of costs -- whether in wage rates or in material prices -- will accentuate the problem.

I believe, however, that these problems are associated with a transitional stage in the evolution of Canada's transportation systems. Looking to the railways' prospects for the future, I can only reaffirm my view that the railways have a substantial growth potential. If they are vital now, they will be even more so in the future.

THE CHAIRMAN: Thank you very much, Mr. Gordon. We recognize that you have packed a great deal of thought into a mere eighteen pages. May we ask you some questions?

MR. GORDON: Yes, I would be glad to answer them if I can.





THE CHAIRMAN: On page 2 you refer to the conceivability of a coal-burning gas turbine and that is a matter that we have heard a good deal about in the Maritime provinces, a good deal of hope about it. Would you be in a position to expand on what you have said here at all? Is there any latest information which would be helpful?

MR. GORDON: I don't know that I can be very specific, because there is a great gap between the theoretical considerations which point to favourable economic results and the development of a practical locomotive. Conditions of service and actual operation may be very different than those which can be assimilated in laboratory experiment, and actual road tests are essential.

The Canadian National's position in that respect is that we are willing to conduct road and field tests as soon as there is an experimental unit which appears to have reached the stage where it is possible. At the moment we doubt that the coal-burning gas turbine would lend itself for general purpose use so far as the locomotive is concerned. That is to say, as far as we can see at the moment, it is unlikely to be suited for such operations as switching and way-freight or pick-up services, and it is more or less likely to be limited to inter-terminal main line traffic, where its low load efficiency would not show to too much advantage.

All I can say, therefore, in summary is that it is still in the experimental stage, we have a keen interest in it, but it remains to be proven.





THE CHAIRMAN: Thank you. On page 8 you deal with the criteria of policy which you recommend. The first one:

"That the cost of rail transportation as it appears to shippers in the form of freight rates, should fully reflect the inherent economic advantages of rail transport."

Would you like to expand on that statement a little bit?

MR. GORDON: My thought there is that when the railways are able to quote the price for their services and set the conditions for that service in terms of a full recognition of the competing facilities available to shippers, then the best instrument of transportation will win out in the competitive areas, of course.

THE CHAIRMAN: I see.

MR. GORDON: That is to say, the natural advantages which exist in each type of transport medium will come into full play and the shippers then will get the benefit of having available to them the most effective transportation service at the lowest price which market conditions will produce. That should mean that each form of transportation then would have a compelling interest to strive for ways and means to improve service and that would always be to the advantage of the shipper.

THE CHAIRMAN: Then on the next page at the bottom you refer to the average costs of trucking services at five cents per ton mile. We had -- at least I had -- been under the impression that the



average in the United States was slightly higher than that. Is five cents --

MR. GORDON: Well, I am not going to defend that figure. It is a "guestimate". I have heard estimates in the United States as being close to six cents per ton mile and I have heard estimates ranging all the way up to 10 cents. But we were taking that figure and saying that even if it is five cents a mile we can still do better.

THE CHAIRMAN: What is your average cost?

MR. GORDON: 1.5 is what we usually take as the railway average cost.

THE CHAIRMAN: That is what I really wanted to get, that the difference was a very substantial one.

MR. GORDON: Yes, it is.

THE CHAIRMAN: On an average basis.

MR. GORDON: Yes.

THE CHAIRMAN: Which may not apply to --

MR. GORDON: The average which we took for the trucking there of five cents per ton mile is subject to much wider variation in respect of units of the individual truckers. That is, the large, well-managed truckers would show a much better cost than the smaller units, whereas the railway cost is confined, as you know, to bigger units and more direct competition.

THE CHAIRMAN: I thought you were going to say to a well-managed unit.

MR. GORDON: Too well managed -- I don't know whether the word "to" is t-w-o or t-o-o.

THE CHAIRMAN: At the bottom of page 10 you make a suggestion; I will read it:





"I suggest therefore that in the public interest there are only two items of regulation which retain their justification in the competitive field -- the requirement that rates should not go below out-of-pocket cost, and that rates in effect should be made known to the shipping public."

I don't get the significance of making the rates known to the shipping public. Do they not know what the rates are now, do you mean?

MR. GORDON: What I really mean is this: if we are living in a field of wide-open competition, I suggest that the railways should be free to establish a rate under given circumstances for a given shipper but that when that rate has been established it should be published. I am not suggesting it should be published before the event but we should not have secret rates, that the rates should be known to the general public so that any shipper who feels he can meet the same conditions would have an opportunity to apply to the railways for the same treatment.

THE CHAIRMAN: And the fact that they are remunerative to the railways or to the trucking companies is to prevent what in merchandising circles would be called loss leaders?

MR. GORDON: In part, yes, but also to remove any possibility of the allegation that the railways are using their economic strength in an unfair way to drive legitimate competition out of the field. We are not afraid of legitimate competition.



MR. STEWART: I take it that agreed charges are rates, are they?

MR. GORDON: Yes, agreed charges are special rates under special conditions, which in essence mean that if we have an arrangement with the shipper whereby he will agree to ship a fixed proportion of his total shipments by rail then we will give him a special rate in connection therewith. It is tied to a percentage of his traffic by rail and it varies according to the percentage. And, incidentally, when we give that agreed charge it is available to anybody else in the same line of business who is prepared to give us the same conditions.

MR. GUSHUE: This regulation would apply to the trucker as well as to the railway, I take it, the regulation you suggest here?

MR. GORDON: I don't quite follow your question. Are you referring to agreed charges now?

MR. GUSHUE: No, the regulation -- you suggest that only two items of regulation in the public interest, one the requirement that rates should not go below out-of-pocket cost, would that be right?

MR. GORDON: We would be delighted to see that applied to the trucking industry, although all I am saying here is in relation to the railways.

MR. GUSHUE: You are not suggesting that here?

MR. GORDON: I am not suggesting that, I am simply saying it should be that way. But I quite agree with you if it could be applied to the truckers





we would be delighted.

MR. GUSHUE: It would be hard to apply.

THE CHAIRMAN: On page 13 you are talking about the differences between railway income accounts and national income accounts and you mention the formidable difficulties in the way of obtaining an accurate estimate of consequential changes in national income. It would seem to me that the details or the make-up of the changes in the net increase in national income would also have to be taken into account. For instance, if in the calculation it was shown that because a new branch line was put into an area there would be additional agricultural production in commodities that might be expected to be in surplus supply, presumably you would think twice before you included that in the calculation. I am worried about these Gross National Product computations that don't go into detail as to how they are made up.

MR. GORDON: Yes. Well, I see the difficulty, but I would also feel that it would be pretty hard to picture a situation where the extension of a branch line into a given area would be predicated on an undertaking by the community not to grow wheat, for example, if it happened to be in surplus at the time. I think it would have to be left to the judgment of the individuals in that area as to what represented their best interest.

THE CHAIRMAN: I didn't mean that, but I thought if a part of the increase in the Gross National Product was an estimate of how much additional wheat would be grown in that area, then that might be given a second look.





MR. GORDON: Yes. Although I would suggest this to you, that in any new area where a railway line was going in, the computation would really have to do with the development of agricultural land, it would not be, I don't think, aimed at specific crops, we would say we are opening up an area for agricultural purposes.

THE CHAIRMAN: On page 14 you are talking , about the desirability of permitting the railways to discontinue unprofitable lines. Does that mean that they should be allowed to discontinue unprofitable lines at their own decision or should that be subject to approval by any other body?

MR. GORDON: Oh, I am inclined to think it would have to be subject to approval, yes. All I am saying or what I intended to say is that it should be recognized that the railways have a right to bring evidence showing that the need for the line has gone and that there are alternative services and all that sort of thing.

THE CHAIRMAN: Yes.

MR. GORDON: I am really suggesting there a sympathetic court and not one which is just naturally "no" because of prejudice.

THE CHAIRMAN: On page 16 you are talking about the commuter services and I think you suggested you would be very glad to introduce more of these if the municipalities would pay part of the shot. Have you seen any indication on the part of any of the municipalities that might represent willingness to pay part of the shot?



MR. GORDON: I have not developed a microscope big enough for that purpose yet, no.

THE CHAIRMAN: It was not one of the points that the municipalities have suggested to us as yet.

MR. GORDON: There has been no volunteering, as far as I could see, but it is an amplification rather of my point that the users should pay for the service.

THE CHAIRMAN: Yes. Now, I hope you will forgive this next question, and I hope some of my partners will realize that I have not completely forgotten my own profession; on page 17 you refer to a deficit position of the year of \$20 million. Is that before or after depreciation or capital cost?

MR. GORDON: It is after depreciation, yes.

THE CHAIRMAN: After.

MR. GORDON: In fact, it is the net position after we have taken care of our payment of fixed charges and any form of depreciation such as you have in mind.

THE CHAIRMAN: I see. Then, towards the bottom of that page you say there are only two logical courses of action:

"either to permit higher rates on non-competitive traffic, whether it be on basic commodities moving in domestic trade or to foreign markets";

do you think that principle should have general application or would it have application only subject to





approval by the Board of Transport Commissioners? For example, the freight rates on shipments of agricultural machinery, I presume, are relatively low, are they now -- lower than they are in the United States?

MR. GORDON: Yes. Well, that raises the whole question, you see, it is part of my submission here and I am suggesting that we still leave to the Board of Transport Commissioners or whatever suitable authority it may be, the question of determining when a functional monopoly exists and if the functional monopoly is of a character that the shipper is really bound by market circumstances, if you will, to the railway, then I think that type of rate should be subject to the jurisdiction of the Board of Transport.

As I endeavoured to show in my brief, it does not apply to a geographic circumstance nor does it necessarily apply to the commodity. In fact, it may vary with the commodity depending on circumstances. As an example of that, a rate on flour, for example, which when it is transported in an area of fifty to one hundred miles should, in my mind, be strictly competitive because there are obvious alternatives in the form of trucking, but a rate on flour that may have to be moved fifteen hundred miles may still have to be regarded as a functional monopoly rate because there is no practical alternative that will move that flour at a sufficiently low cost to reach its market.

Now, there are many other low-value commodities which could only be produced in this country and transported to a market if they had a very low cost



transportation rate and where that fact is found to be the case then I suggest that the Board of Transport or the appropriate authority should sit in judgment as to what rate would be applicable on those goods. And I come to the conclusion here that after having received freedom of action in the competitive area and we have squeezed the competitive traffic for all that we can get out of it and have taken all the revenue that we can take from it, then we have to look at the burden of these unprofitable rates or less remunerative rates that are placed upon us as a duty. And if we have not got enough out of what is earned on the competitive traffic to bear that burden, then I say there are only two courses to follow. Either we have got to go to the Board and say: "Your judgment in respect to what is the low valued traffic is bad; you have not given us enough, you will have to raise these rates no matter what happens." Now, there will be a nice matter of judgment there because in some cases some of those rates, if they are raised, would stifle the traffic altogether, the traffic would not happen because the production could not take place. So that is where the Board would have to sit in judgment to see how far those rates could be raised and still provide the production which is necessary for the benefit of our general economy.

It may be that the Board would have to come to the conclusion that no matter what the circumstances are we cannot raise rates on thus and so without killing the traffic, killing the production rather, not so much the traffic, killing the production altogether, and if that is so and it is still considered to be in the





national interest, then somebody has got to decide to pay the railway for its service in order to survive.

THE CHAIRMAN: Like the Maritimes Freight rates.

MR. GORDON: And that may be a subsidy, as I suggest, yes. The railways should not be asked to bear all the burden, it may still be in the national interest that that freight rate be maintained. And all I am saying is that somebody should pay the railway for the service.

THE CHAIRMAN: I would like to ask you one or two questions about the prospects of branch line construction in the areas that we have heard something about. The first is Pine Point. Would you prefer us to ask Mr. Crump about that or would you give us your view on it?

MR. GORDON: Oh, I am quite willing to express views and hear Mr. Crump agree with them. Well, the Pine Point situation I think can be described very simply. There have been analyses, various analyses made of the proposed branch line to Pine Point, and on the basis of what might be called preliminary or tentative surveys -- and I emphasize those adjectives, because these costs cannot be definite in a line of that size, magnitude -- but assuming that the cost of the line would run somewhere between fifty and sixty million dollars as presently contemplated, our joint estimates -- these have been made up with the C.P. and ourselves -- our joint estimates indicate that it would take something of the order of 800,000 tons of concentrates to support that line, that is, to pay its





maintenance costs, operating costs, interest charges and so forth. Now, if the railway were built by government and handed to us free of all interest cost we estimate that it would take about 350,000 tons of traffic to break even on that basis. The latest information I have is that the best indicated estimate -- and Mr. Crump may be in a position to be more up-to-date on this than I am -- but the latest figures I have indicate that the best estimate by the mine is something of the order of 200,000 tons of concentrates. So that it falls short of the amount needed to even carry the line if it were built and handed to us free.

Of course, I am not dealing with the further need that if any such line be built we would have to see some indication of the period of time that the traffic would be available. It would, I would think, have to indicate something of the order of twenty years and a traffic guarantee of a volume of not less than 350,000 tons to warrant the operation of the line delivered to us free. That is the way it stands now.

MR. GRAUER: I just wanted to say, assuming your distinction between railway income accounts and national income account, that would be an example of the type of industry that one would want to turn to and look at from the point of view of national income account, would it not?

MR. GORDON: I think that is right. If it is felt in the national interest that the product of that mine is something that should be encouraged relative to or for the benefit of Canada as a whole, not



only for the benefit of the operating company.

MR. GRAUER: Well, in following that up, is there any effective way of assessing this multiplier effect that you mention on page 13?

MR. GORDON: Yes. I think it is a pretty technical matter but I think experts can make a fairly good stab at it. The multiplier effect is a well recognized economic principle in the analyses made by railway economists. I would not presume to try to describe it but I think it can be measured.

MR. GRAUER: So in a case like Pine Point then, the thing could be followed through?

MR. GORDON: It could, but it would need a very detailed survey, not only in connection with the possibilities of the mine, but the possibilities of the intermediate territory, its possible forest wealth, its agricultural development, the possibilities of other finds and so forth, and a fairly good stab could be made at it along the lines that I think you have in mind.

MR. STEWART: Was any such accounting done in the case of the Lynn Lake line?

MR. GORDON: Yes.

MR. STEWART: There was an attempt to appraise these factors?

MR. GORDON: Yes, we did. And in that case, course, there is an example of another variation. There was a subsidy paid by government towards the capital cost of that line, but that subsidy paid on behalf of that capital cost arose largely from the desire of Canada to meet obligations internationally in the







provision of badly wanted metal at the time of the Korean crisis. But there is another consideration that would come into play.

MR. GRAUER: It is the railway you have in mind that would make this calculation, is that right, or would it be some governmental agency?

MR. GORDON: I think it would have to be a joint effort really, because if a subsidy were going to be paid naturally the government would have to form a judgment of it and it would become a joint effort.

MR. GRAUER: They would want to check it, anyway.

MR. GORDON: They would certainly want to check it, yes.

THE CHAIRMAN: These tonnage figures you were giving to us of concentrates, are they in addition to any other tonnage that might be expected to be carried?

MR. GORDON: No, these are the tonnage figures in the form of concentrates, and it is also based on some calculations of inbound traffic arising from the mine proper, but if we developed intermediate traffic there would be a deduction, or at least they would form part of that overall tonnage. And I should have mentioned also that the estimate in respect of the economic result flowing from that magnitude of tonnage is based on existing rates. It is based on existing freight rates for that type of tonnage.

THE CHAIRMAN: What I meant was we were told when we were up in that area that if there was



such a railroad constructed there would be a lot of tonnage ~~that~~ would be carried by the railroad for various destinations, mainly Yellowknife, I suppose. Is that included in these figures?

MR. GORDON: Yes. In the calculations based on the tonnage we have estimated in terms of inbound traffic any tonnage that we see that could be diverted from the present waterways. We have done that.

THE CHAIRMAN: I see.

MR. GORDON: But there is not, as far as I see, any attempt at the moment to talk about new tonnage. We have only talked diverted tonnage.

THE CHAIRMAN: Would you make a guess as to whether that line is likely to be constructed in the next ten years or so?

MR. GORDON: No, I would not care to make the guess. I think there are too many imponderables in that. I don't think it would be proper for me to forecast.

THE CHAIRMAN: To have a look at another part of the country. Is it possible to serve by rail the north shore of the St. Lawrence east of Tadoussac, presumably from St. John or --

MR. GORDON: Are you thinking of out through the Baie Comeau district?

THE CHAIRMAN: I am thinking of Mr. Lussier. He is quite interested in that part of the world. Yes, the Baie Comeau.

MR. GORDON: Yes, it is quite possible to serve it by rail, and it would depend entirely on the





economics of the proposition whether it is worth while. What we have of course obvious there is the water competition at once.

THE CHAIRMAN: You have got water competition; what about a water connection with your line at Rimouski or Father Point?

MR. GORDON: What would be more interesting to us I think would be consideration as to whether or not a railway line built in that part of the world would produce enough traffic in the off season to justify it. I don't see at the moment that we would have much interest really in traffic that would be developed in the open-water season because the availability of water transport would take almost anything out of that area.

THE CHAIRMAN: Is there any reason why they could not keep a channel open in the winter?

MR. GORDON: Well, you are getting pretty deep in thermal engineering for me now, I don't know.

THE CHAIRMAN: You are getting cautious in your old age.

MR. GORDON: I deny both allegations.

THE CHAIRMAN: Do you expect any extensive development in the piggy-back service which was introduced more or less recently?

MR. GORDON: Well, yes and no. The piggy-back service has a very limited field of application actually. It is not the kind of service that can be made available all over the country because in order to justify it there has to be a fairly well balanced movement between two points, so we don't get into the position





of getting poor utilization of our equipment. In other words, to make it worth while we have to be able to get return loads on the same basis that we send them out, and that in Canada at the moment applies to a fairly limited area. In other words, the piggy-back is not very effective for the short haul run, and from the general overall railway point of view our competitive strength lies in making the best use of our standard box equipment because when you look at the amount of traffic that is carried on the piggy-back, if we could get that traffic into standard box cars we could do a far better job for ourselves. But it is a new gimmick, it is a new service that, I say, with a limited field of application, is giving us quite interesting results in the areas where that application is possible.

THE CHAIRMAN: I have got one other question I would like to ask: When we were in Nova Scotia it was suggested to us that it would be extremely helpful to at least one local industry in that province if the purchasing programmes of the railroads, mainly yours I expect, could be spread more evenly over a period of years regardless of ups and down in railway revenues. Is that the kind of development that might be expected to come?

MR. GORDON: Well, that is the old feast and famine argument that we hear a great deal about and in regard to which there has been a great deal of misapprehension in the public mind, always based on the general idea that the railways would not have thought of such an obvious situation by themselves and



they need some help in their thinking processes. It takes two to make a bargain, as we all know, and certainly as far as the railways are concerned we are only too willing to form some procedure with the equipment companies that would eliminate the feast and famine, but in order to do that there must, of course, be some advantage to the railways and so far I have not seen any of the equipment companies that are ready to discuss seriously a means whereby we would get some benefit out of spreading the orders as you suggest. In other words, they would be quite willing to take a five-year contract providing we took all the risk in regard to price and in regard to changes of material supplies and things of that kind. But there have been discussions with the equipment companies. I don't want to sound too harsh about it, but, as I said before, it takes two to make a bargain.

THE CHAIRMAN: I thought it was fair to ask the question. Some of the equipment companies will be coming here tomorrow. We perhaps will hear something from them on it.

MR. GORDON: I would be very glad if you were able to persuade them to volunteer an offer.

THE CHAIRMAN: We will do the best we can.

MR. GORDON: Thanks very much, Mr. Chairman.

THE CHAIRMAN: I am not thinking of anybody present today.

MR. GRAUER: The submission shows some very great efficiencies that are going to be gained over





a period of years in the future. I wanted your opinion about the cost side of the situation -- the railway industry is a relatively high labour cost industry and, as you know, we have a number of other important industries in the country that are relatively low labour cost in their cost content, we seem to be in for a secular upward trend in wage costs -- what will the effect of that situation be upon the railways in the future?

MR. GORDON: Well, I think that is really very simple and from the economic standpoint, to the extent that the railway industry is not able to control costs then we will become progressively less competitive. The percentage of labour cost in the railways as a service industry is much higher than in almost any other industry I know, and therefore the cost of our labour is a very important matter to us. It follows therefore that if our costs tend to get out of step with other costs that we will progressively price ourselves out of the transportation market and the availability of employment in the railway will decline.

MR. GRAUER: I suppose perhaps another way of putting the question, this 90 per cent increase that you mention on page one, that did not take into account the labour cost trend, I suppose?

MR. GORDON: No, that does not deal with the labour cost. That is a physical figure of the actual volume of tonnage handled.

MR. GRAUER: Yes. So the question of labour cost is more or less an open one.

MR. GORDON: Not in that figure, no.

MR. GRAUER: On page five, I believe it is,



you refer to urbanization and the necessity of adequate reservation of land suitable for industrial use.

MR. GORDON: Yes.

MR. GRAUER: That is a very important problem. There also is this trend, some people say, and other people say it should be a trend, towards decentralization of industry. Have you views on the probable trend with respect to decentralization of industry? That is, getting it away from the presently established big towns?

MR. GORDON: I don't know that I could give a clear answer to that. I think that concentration of particular types of industry in particular areas holds a great deal of advantage, that the concentration of, I say, special types in a given area enable them to get advantages by reason of being in the same general area. They tend, for instance, to collect a specialized labour force in that area which flows between companies, but nevertheless specialized skills and things of that kind, and then availability of supplies. From the railway point of view we would favour centralization of the type I mentioned where specialized types of industry tend to form a community and therefore we could channel traffic into that area and out of it more efficiently than it if were spread all over the map. I think there is a great deal to be said for that type of centralization.

MR. GRAUER: That would be near our present towns?

MR. GORDON: That is right.

MR. GRAUER: Thank you.

THE CHAIRMAN: Thank you very much, Mr.





Gordon. You have given us a great deal to think about and I apologize for any suggestion that you are getting either old or cautious.

MR. GORDON: Thank you very much.

THE CHAIRMAN: We will take a five minute break.

---Recess.

---Upon resuming.

THE CHAIRMAN: Shall we come to order, gentlemen?

Mr. Crump, we are very pleased to welcome you to these proceedings and we are looking forward to the presentation of your submission, which we will mark Exhibit 114.

MR. CRUMP: Thank you.

Mr. Chairman and gentlemen of the Commission: In a submission to the Royal Commission on Canada's Economic Prospects it is not necessary to elaborate upon the role of transportation in the national economy. The need for healthy development of plant facilities and organization that will provide essential transportation at lowest cost to the nation can be taken for granted. The question is -- how best to achieve that objective? My remarks will be directed toward consideration of that problem.

Railway operation is the major transportation undertaking of the Canadian Pacific. Railways perform the major proportion of all goods transportation in Canada, although the proportions performed by highway, air and pipeline have been growing in recent





years. Coastal and inland water carriers also handle a substantial amount of traffic. The indications are, however, that in the foreseeable future the railways will continue to be the backbone of the nation's transportation system, providing the lowest cost overland mass transportation of any agency capable of handling all commodities. In other words, there will continue to be a heavy demand for rail transportation and it is my firm belief that the size and nature of that demand will be such as to require large capital expenditures in railway equipment and facilities.

It follows from this that railway earnings should be sufficient to provide an adequate return on investment. This condition has not been met in the post-war period, notwithstanding the high level of economic activity and the large volume of railway freight traffic.

The problem stems, not from lack of demand for transportation, but rather from the growing competition and from strict regulation which prevents, in some cases, and impedes in other cases, efforts to design and price services in accordance with demand and which inhibits and sometimes completely prevents abandonment of services and lines, the earnings from which do not justify their continuance.

Associated with the problem of regulation is the impact of increasing competition in the transportation industry and the fact that the railway is the only transportation agency charged with the obligation of providing common carrier service in all



seasons of the year for all commodities to all communities in the territory over which it operates. Not only are other transportation agencies free from the obligations of overall common carrier service, but they are also subject to much less regulation, particularly in the case of water and highway transport. A further factor is the ability of the customer to provide his own transportation, the opportunities for which have been greatly enhanced by the development of the highway and the motor vehicle. In transportation this is the "buy or make" alternative that is well known in other industries.

In short, the transportation industry has become highly competitive. There are segments of traffic for which the railway is said still to have a monopoly, but this is not strictly true. It appears to be true only because of an historic characteristic of the railway freight rate structure.

Actually there is nothing that moves by rail that could not be moved by truck -- at a cost. At the same time it is impossible in my view to move all the traffic by truck,

Even if all traffic could be so moved, it seems clear that it could only be accomplished at prohibitive cost. It can be shown that although certain truck movements can be made at a cost as low as two cents per ton mile, the overall cost of moving traffic now being carried by that medium is at least five or six cents per ton mile as compared with the present rail revenue of about one and one-half cents per ton mile.





However, this figure of present rail revenue does not, in view of the present low return which it provides, represent a true figure of the full cost of carriage by rail. It is estimated that if all elements of cost, including the cost of money invested in the railway property of Canadian Pacific be taken, the true cost could be said to be approximately 1.9 cents per ton-mile.

In this comparison I have taken no account of the contention which seems borne out by every investigation that has been made, that the present revenue received by road authorities in this country from commercial motor vehicles is far short of meeting the full and equitable share of the cost of providing the highway facilities which they use.

It seems apparent, therefore, that by any standard the railway provides mass land transportation at the lowest available cost. The anomaly is, of course, that the railway is today faced by an ever increasing competition, mainly from the inherently higher cost highway transport and that the railway is on the one hand hampered by the broad duties and obligations placed upon it as a common carrier under the Railway Act while its highway competitors, where regulated at all, are substantially free from similar regulation and are having provided for them largely by the taxpayers and the ordinary motoring public, the right-of-way upon which they carry on their operations.

What differentiates competitive and so-called non-competitive traffic is not the physical characteristic of the goods but the rate at which it



is moved by rail. Where the rates are at or above truck costs, the traffic is termed competitive. Where the rates are well below truck costs the traffic is termed non-competitive.

Now, historically and as a generality, railway freight rates have been higher on high-valued goods and lower on low-valued goods. Consequently the division between competitive and so-called non-competitive traffic tends to place the high-valued goods in the competitive segment and the low-valued goods in the non-competitive segment.

In the absence of carrier competition the economic ceiling on the rate for the movement of any particular commodity is the top level at which the commodity will move in volume. Hence the so-called value of service principle under which high-valued commodities carry higher rates. Obviously, however, any rate which is above the cost at which the shipper can provide his own transportation or the cost at which he can have it done by another agency is a rate that invites competition. Consequently, the cost of alternative means of transportation becomes the other ceiling and whichever ceiling is lower will ultimately be effective.

It is clear that the more pervasive competition becomes the more frequently will the ceiling of alternative costs come into play as the economic regulator of freight rates. In fact, this trend is already very pronounced. The logical sequence of events suggest that it will become more pronounced. There are two reasons for this. First, when the railways lower





their rates on traffic being handled by truck to meet competition, the truckers tend to look for other traffic upon which the rail rates still provide an umbrella above their costs. This hastens the spread of competition to all traffic upon which the rail rates look attractive to truckers. However, with growth in the trucking industry and competition within the industry, this widening of truck competition would eventually occur in any event.

The second reason is that there is some danger that as the higher rail rates are lowered to meet competition, those on the low-rated commodities may have to be raised, or at any rate they will have to be higher than otherwise would have been necessary. It is nevertheless very much in the interest of the shippers of the low-rated commodities that railways should be allowed to meet competition at rates that are higher than their out-of-pocket cost. This is because any amount which the railways recover above that cost is necessarily in relief of the shippers of the non-competitive traffic. It is therefore not only in the interest of the railways but also in the public interest that railways should have a maximum degree of freedom in meeting competition so as to maximize their net earnings from competitive traffic. It is, however, necessary to face the possibility that rates established more and more in relation to cost of service, rather than in relation to value of service, will exert pressure on the lower rates.

This process, the inexorable result of competition, is shifting the burden of transportation





costs. High-valued commodities are being relieved of some of the burden, because for them the ceiling of alternative costs is lower than the ceiling imposed by value of service.

The transportation problem, in a large measure, lies in resistance to price adjustments which are required by the realities of the competitive situation. Shippers whose traffic falls within the competitive segment take full advantage of the ceiling on rates imposed by alternative costs. Shippers whose traffic falls within the so-called non-competitive segment rely on regulation to keep their rates down. The railway, being the overall common carrier and the regulated carrier, is caught in the squeeze.

The solution of the problem lies in substantial relaxation of regulation for the railways and in a policy of fair and minimum regulation for the transportation industry as a whole that will permit each transportation agency equality of opportunity to develop in accordance with its relative ability to meet the demands of customers -- both service-wise and price-wise.

I have often been asked "What do you mean specifically when you ask for relaxation of railway regulation?" I will now cite briefly some of the more important things that I mean -- all of which are found in the Railway Act.

First, there is the statutory limitation on grain rates in Western Canada. These rates are at the level of 1899 rates. They yield one-half cent per ton mile which is less than one-third the average yield



of all other rates. They are about one-third the level of rates for comparable movements of grain in North-western United States. Grain and grain products moving at statutory and related rates constitute about twenty-eight per cent of the ton miles of freight transportation produced by the Canadian Pacific. The existence of this statutory limitation (which is provided in Section 328(6) of the Railway Act) is a direct contradiction of the general requirement of the Railway Act that all rates must be just and reasonable. These rates are neither just nor reasonable either to the railways or to the shippers of all other traffic and give an undue preference to the shippers of grain. The Board of Transport Commissioners also now has power, under Section 321, to give preferential treatment to the movement of grain.

Another example of undesirable regulation lies in Section 53(1) of the Railway Act which provides that the Governor in Council may at any time vary or rescind any order, decision, rule or regulation of the Board of Transport Commissioners. This is an invitation to have railway problems considered in a political forum and to attempt to have such problems decided on political considerations rather than upon the merits and upon the evidence. Appeals from the Board should be limited to those involving questions of law and jurisdiction and should be made only to the Supreme Court of Canada. Appeals to political tribunals must at best have a stultifying effect upon the Board and upon the impartial and judicial exercise of its powers. Whatever justification there may have been for political





appeal in the early days, when the railways had a monopoly and were the main instrument of national transportation policy, is now gone. The existence of this right of appeal lends substance and support to a public feeling that in matters of transportation the consumer should enjoy the full benefits of competition on the one hand and those of a political forum on the other hand.

The railways, like other large modern business organizations, are sensitive to public opinion and to the possibilities of adverse reaction either directly upon patronage or indirectly through legislation. In the case of the railways, sensitivity to public opinion is sharpened by the easy access of the public to the Board of Transport Commissioners which functions as an administrative and semi-judicial tribunal. Surely this, plus the rigors of competition, affords all the restraint that is needed in the public interest. Indeed more restraint, in the long run, is detrimental to the public interest.

The unduly restrictive nature of railway regulation is also revealed in Section 337 which was added to the Railway Act in 1951. This is the so-called one and one-third rule, the objective of which was to give some of the benefits of water competition to territory where such competition does not exist. This rule provides that, in publishing transcontinental competitive rates, the rates to interior or intermediate territory must not exceed the competitive rates by more than one-third. Fortunately, the impact of this rule on the railways has been considerably reduced by the fact that it does not apply in connection with agreed charges.



The rule was adopted by Parliament as a result of a recommendation of the Royal Commission on Transportation and undoubtedly stemmed from a desire to apply a compromise of the so-called long and short haul clause in the Interstate Commerce Act of the United States as it currently is being applied by the Interstate Commerce Commission. The long and short haul clause, so-called, prohibits charging a higher rate to an intermediate point than to a more distant one. In the United States, the Commission can relieve a railway from a compliance but in practice it has restricted the railways in meeting competition. The one and one-third rule, however, contains no provision by which our Board can relieve a railway from complying with it.

In the United States, the Presidential Advisory Committee in a recent report to the President of the United States recommended a modification in that prior authority of the Commission be not required in the case of competitive rates.

In this country until the one and one-third rule was adopted in 1951, competitive rates were not subject to the long and short haul clause. Competitive rates were free from this rule because the discrimination, if any, against the intermediate point was not brought about by the railway but rather was the result of the advantage of the more distant point because it was served by a competitive form of transportation.

Section 334 of the Railway Act regarding competitive rates imposes in subsection (c) an unnecessary potential burden upon both the railways and the





Board of Transport Commissioners. It provides that much detailed information may be required by the Board to test whether the competition exists, whether the rates are compensatory, and to assure that they are not lower than necessary to meet the competition. These are tests which would be impossible to meet in their entirety as an analysis will readily determine. The Board so far has not insisted that all the information be supplied.

Section 336 of the Railway Act which deals with the equalization of freight rates goes too far in specifying how the equalization is to be accomplished. The concept of equalization as a general principle is one which naturally commends itself; but in actual application it is fraught with many difficulties. Moreover, the exemption of statutory grain rates is quite inconsistent with the theory of equalization.

Another important restriction which should be greatly modified in the present competitive situation is the requirement that authority of the Board must be secured before unprofitable lines and services can be abandoned (Sections 168, 182 and 190). There are also extensive obligations relating to the supply of equipment and facilities which only have relevance to a monopoly era (Section 315).

The Railway Act and Orders of the Board of Transport Commissioners issued under the Act are replete with rules and regulations governing railway operations. The amount and nature of service given on every mile of line is subject to the Board's approval. There are many rules touching upon operating and





maintenance methods and procedures, upon the design and location of facilities and upon the design of equipment.

Taken individually it may be said that few of these operating rules impose much hardship on the railways. Taken collectively, however, the regulations are unduly hampering. They tend to substitute, in managerial functions, the judgment of the Board for that of railway officers. In this respect their potential restraint is great. They add unnecessarily to the administrative work of both the Board and the railways.

The railways are faced with the urgent necessity of obtaining revenues sufficient to meet expenses and to provide an adequate return on investment. These revenues must be obtained from rates which are under the ceilings of (a) alternative costs by competing carriers and (b) value of service or ability of the traffic to bear the rate. This reality cannot be changed by regulation short of that degree of economic planning which substitutes the edict of the planner for the dictates of the market. The rules as provided in the Railway Act respecting unjust discrimination, undue preference and reasonableness of rates are sufficient to assure equality of treatment as between shippers in so far as the dictates of the market will permit such equality.

All of which, Mr. Chairman, is respectfully submitted.

THE CHAIRMAN: Thank you, Mr. Crump. I am sure there are a number of questions which we would like to ask and I might begin the proceedings. On page 5 dealing with regulations you suggest that



"the solution of the problem lies in substantial relaxation of regulation for the railways," which you proceed to deal with fully, "and in a policy of the fair and minimum regulation for the transportation industry." What do you mean by "fair and minimum"?

MR. CRUMP: Well, Mr. Chairman --

THE CHAIRMAN: Presumably it would be fair, what do you mean by minimum?

MR. CRUMP: It would be rather difficult to ascribe a precise meaning to the word "minimum", but on a general principle I think it can be recognized that the railways of Canada are not going to be freed of all regulation. My reasons for that have been outlined. Certainly, as I have submitted, I feel that regulation should be reduced, very markedly reduced, but I do feel that if the nation is to benefit by the most economic form of transportation, whatever that may be, or by whatever means it may be, that there should be some regulation, certainly more regulation than exists today, on our competing carriers. The obligation -- I think it was mentioned by the previous speaker -- the obligation to publish rates is one, and to see that those rates are policed. Secondly -- well, I am perhaps getting off my point here -- equality of operation, of course, is very important. That is covered in another portion of my brief.

THE CHAIRMAN: Of course, except to the extent of interprovincial transport any such regulation would have to be imposed by the provincial governments, would it not?





MR. CRUMP: That is right, under the British North America Act. But you will recall that recently a decision of the Privy Council indicated that interprovincial transportation was under the jurisdiction of the federal government and there has been an agreement made on that.

THE CHAIRMAN: I see. At the bottom of the next page you take exception to the appeals from the Board of Transport Commissioners to the Governor in Council or to the cabinet. In view of the importance of transportation in the scheme of things in this country is it reasonable to believe that this appeal procedure would either be considered unnecessary or that people would agree to giving it up? I don't see how you can expect in a country like this to give up the right to appeal to anybody. I might just mention in that connection that this Commission most certainly is not set up to make an examination of the freight rate structure.

MR. CRUMP: No, I realize that, Mr. Chairman.

THE CHAIRMAN: We are interested in your views in these matters to the extent that they represent problems which may affect the development of your industry. But in practice, what sort of things are appealed to the cabinet? Are there many such appeals?

MR. CRUMP: Yes, we have had cases within the past six years of appeals to the Governor in Council from decisions of the Board. Now, I realize, Mr. Chairman, that you are not a Commission to investigate freight rates and --

THE CHAIRMAN: Interesting as they are.



MR. CRUMP: I must say that the reason I stressed rates as much as I did in my brief was because they are of paramount importance to the future of my company as being a portion of the transportation industry in Canada. I fully recognize all the limitations, as you say, of perhaps the country as a whole rescinding Section 53(1) of appeals to the Governor in Council perhaps, but nevertheless such an appeal does not lend itself to a calm and judicial assessment of the situation, because these appeals have always been in the matter of freight rates and freight rates is a very complex subject, as is evidenced by the many millions of words of evidence in the Board of Transport now, and not having followed that evidence it is rather difficult to make, I would say, a clean-cut judgment.

THE CHAIRMAN: Well, Mr. Crump, let me ask you another question. On page 9 you are talking about the discontinuance of unprofitable lines. Is it suggested that the railways should be able to discontinue lines and services at will, without any approval?

MR. CRUMP: There again, Mr. Chairman, I don't think that is a reasonable solution.

THE CHAIRMAN: Yes.

MR. CRUMP: I think we would probably have to go to the Board, but I think we should have, shall I put it this way, a little greater possibility of having an appeal considered. You know and I know, we have all seen examples of cases where we have applied for the abandonment of a branch line and a hearing has been held and people drive in from miles around in their

(Page 3937 follows)





automobiles to protest about having a train taken off, which they themselves have not used for twenty years and have no intention of using.

THE CHAIRMAN: To get back to our responsibility of crystal ball gazing, would you care to give us your view of what the development prospects are for the Canadian Pacific Railway (a) if all these changes that you suggest are approved and adopted, and (b) if they are not?

MR. CRUMP: Under the condition (a), if they were approved and adopted, then we would be thrown in the competitive race and to survive or cease to exist, and I think we would have to be in that condition without complaint. (b) If they are not adopted we will continue to offer the best possible transportation at the lowest possible cost. We will continue to operate as an efficient organization as we can. Primarily, of course, our difficulty is in this first matter of regulation of which I spoke in the Crows Nest Pass rates, and they have a tremendous impact on the operation of the Canadian Pacific. Just some indication of that is that this year our gross revenues from grain and grain products moved under the statutory rates will probably be in the order of \$32 million, that on a five-year average is 28 per cent of our gross ton miles of work performed; for that we get about 8 per cent of our gross revenues. You can see the calculation there.

THE CHAIRMAN: Yes.

MR. CRUMP: That is perhaps the greatest inhibition we have in our operation in Canada.





THE CHAIRMAN: Mr. Crump, I think we all know of your experience and reputation, particularly when you were -- I won't say when you were younger because I got into trouble with your colleague or your friend Mr. Gordon on the subject of age -- but earlier on in the mechanical and technical side of the business before you got up to your present rarefied position. Would you like to tell us something about what you think might happen in the next decade or so on the technological side? Are there going to be changes in railroading that are going to be spectacular enough to revolutionize it or bring the costs down substantially?

MR. CRUMP: I don't think the changes will be of a nature to revolutionize it. Changes in the railway industry come slowly but they come nevertheless. I think perhaps the best example of that is in the field of motive power. I was present when you asked Mr. Gordon a question about gas turbines. The greatest single change I think that perhaps any one industry has undergone of this magnitude has been the dieselization of the industry and that has taken place in Canada, certainly. In the last five or six years, although the diesel locomotive itself is quite an old instrument of power.

The dieselization has been undertaken as rapidly as possible, certainly by our company, and some indication of what that can do is that we estimate that with the present number of units we have our savings, operating savings, are in the order of \$25 million a year.

The next step perhaps might be the use



of the gas turbine in some services. The gas turbine is efficient only at very high horsepowers and for what we call heavy main line duty. Incidentally, you might be interested to know that whereas the efficiency of a diesel engine, the diesel engine itself, is about 36 per cent thermal efficiency, the efficiency of the locomotive as a whole runs somewhere about 27 per cent. That compares with the thermal efficiency of the old steam locomotive of five to six per cent. But also it is significant that the efficiency of the gas turbines now in use, the turbine is probably around 17 to 18 per cent and the efficiency of the locomotive as a whole is probably around 15 per cent. Now, those figures, I think, are quite self-explanatory as to what might happen in the development of locomotive or motive power.

By the way, the Union Pacific

in the United States has 25 turbine locomotives in service now and has ordered another 15, so it is not a new development. There has been a gas turbine locomotive in Switzerland for the past four or five years. All of those, however, make use of oil as fuel. However, there has been some experimental work done on the Union Pacific of using butane and propane as well for fuel.

Getting away from motive power, our company has found that the downgrading, if you wish, of some passenger train services by substituting the lengthy steam trains by self-operated cars has proven very satisfactory indeed, what are known as the RDC cars, the rail diesel cars. They are operating in many sections of the country now and with very excellent results.





Passenger equipment as a whole has changed a great deal. The Canadian Pacific has recently put into service some equipment which is very modern indeed as to materials, design and some of the operating principles. For instance, one example is the disc brakes whereby the old orthodox method of braking a train on the railway has been changed and we use disc brakes on those cars, which results in a much finer ride for the passenger.

Currently in the United States there is a development towards a fast, very low, rather small sized passenger train variously known as The Tiger, The Arrow, and under different names. That is a development which I think all railways are watching very closely and one which we might very well see in the future for fairly short distances of three to four hundred miles at high speed. Of course, I think one of the things you have got to do in Canada when you introduce a train of that kind is to take a look at the grade crossing problem because when the train of tomorrow at 100 miles an hour meets an automobile of tomorrow at 80 miles an hour the results are rather disastrous, as we have already seen.

Freight-wise, I think Mr. Gordon outlined in his brief that there are new developments in types of freight cars. There will be some of those. But it must be borne in mind that as each specialized type of equipment is developed the probability is that your empty car mileage will increase because normally you only get a load in one direction and if the car is sufficiently specialized you don't get a load in the



opposite direction and that is an inhibiting factor in the design of specialized freight equipment.

In other directions, of course, I think the advances that have been made and are being made are really too numerous to mention here. I mention the new electronic equipment, the integrated data processing equipment with which you are all familiar, but which certainly can be used in the railways where we have such a tremendous amount of paper work; signalling; better methods of doing work on maintenance-of-way; they are being undertaken all the time and will be undertaken, but there is nothing that I would term revolutionary. That about covers the field, Mr. Chairman.

THE CHAIRMAN: That is very interesting; we are very grateful to you. We asked Mr. Gordon some questions about the possibility of a railroad to Pine Point; would you give us any views you might have or do you agree substantially with what he said, or would you like to modify his conclusion?

MR. CRUMP: I think I agree very substantially with what Mr. Gordon said. The difficulty in quoting any figures on the Pine Point project is to know what basis you start on, because you have got two variables which govern the entire economic picture. The first is the tonnage which is going to be produced by Pine Point, and the second is the freight rate at which it will move. Both of these variables have been changed from time to time. Under one set of conditions there would appear to be a deficit, as Mr. Gordon said, of \$750,000 from out-of-pocket costs, disregarding the





interest on investment, and it should be borne in mind that if this railway is going to cost \$55 million even interest at four per cent would be \$2.2 million a year, which would be a very heavy load for that line to carry. But taking the most favourable conditions, it would appear from the most recent calculations that, as Mr. Gordon expressed it, if we were given the railway free of capital cost, then we could expect an operating deficit of as low as \$300,000 and possibly an operating profit as high as \$300,000, within that range. But that again is taking the minimum and maximum freight rate and the minimum and maximum tonnage.

As to its need, I had occasion to speak in Yellowknife on the subject, and I felt that since the railway was not economically justified, that if it was in the national interest then that is another consideration altogether and I think Mr. Gordon advanced some formula as between railway accounts and the national accounts that adequately covered that aspect.

MR. GUSHUE: Mr. Crump, going back to the question of appeal from the decisions of the Board of Transport Commissioners, you made two suggestions; one, that the appeal be to the Supreme Court rather than to the Governor in Council and the second one rather interested me, in that there be no appeal on questions of fact. I was wondering why you would make that suggestion. Is there any particular reason?

MR. CRUMP: Yes. The Railway Act as it stands today allows appeal to the Supreme Court from the Board of Transport Commissioners on questions of





law or of jurisdiction, and we have had those appeals. But as to appeal on the question of fact I think -- to revert to what I said before -- the finding of facts is very difficult in a complex case such as freight rates, and that is what I am thinking of primarily.

MR. GUSHUE: I can see that.

MR. CRUMP: And unless you have all of those facts before you it is rather difficult to come to a solution and to me the Board of Transport Commissioners, being the duly constituted body, it is an administrative tribunal but it is semi-judicial, after hearing all of the facts and evidence should come to a judgment that to me should stand.

MR. GUSHUE: You would apply that to an appeal even to the Supreme Court as well as to the Governor in Council?

MR. CRUMP: Not on a question of law; that is another matter.

MR. GUSHUE: No, but I mean on a question of fact.

MR. CRUMP: Yes, on a question of fact.

THE CHAIRMAN: Thank you very much, Mr. Crump, we are most grateful to you.

MR. CRUMP: Thank you.

--- Recess.

--- Upon resuming.

THE CHAIRMAN: I think we might come to order.

Mr. McGregor, it is very nice of you to prepare this submission for us and we are looking forward



to hearing your views about the future of your industry. Would you proceed to present your brief?

MR. MCGREGOR: Thank you very much, Mr. Chairman, and on behalf of TCA I too would like to say how grateful I am for the opportunity of being here and how pleased we in the Company are that the Commission is showing such obvious and well-justified interest in transportation in general and particularly the air transportation. I suppose Canada with its distances, its fast moving economy and its widely spread interests, both national and international, is probably more rightly concerned with transportation and air transportation than perhaps any other country with the possible exception of Australia.

I have seen the thought expressed that there is some indication at least that Canadian businessmen have become so engrossed with the present that there has been some tendency to neglect long range planning. However strongly that tendency might have applied with respect to aviation carrier companies, we by the very nature of the very nature of the business I think are prevented from neglecting the future for one or two very definite reasons. With modern types of equipment, investigation, technical investigation, precedes ordering, usually, by two years, there is anything between a two and three-year interval between the placing of an order and the delivery of the equipment, perhaps six months of training and familiarization, followed by certainly not less than eight or nine years of actual productive use. So that in planning at least with





respect to equipment we are confronted with an eleven-year forecast of the acceptability of that equipment and its ability not to become obsolete in the sense that it would no longer have a passenger appeal.

That is just a preliminary thrust at the general problem. I would also like to refer to another matter somewhat outside the scope of the brief, and that is the very mid-point of a transition period in which aviation in general finds itself. For instance, eight years ago TCA operated aircraft with nothing but radial air-cooled engines in them. Today the Company is operating four different types of engines: The same old radial air-cooled engine; the in-line fluid cooled engine, as for example the Rolls-Royce in the North Star; the radial compound engine, also air-cooled, in the Super-Constellation; and much more recently, the turbo-propellor engine. I think it is probably safe to forecast that eight years hence the aircraft will be again down to two types of power: the turbo-prop and the full jet engine or a variation thereof.

If I may go on from there, Mr. Chairman, with the brief, I will begin at the second paragraph of the first page.

So that in preparing this statement it has been assumed that the Commission's interest and responsibilities are concerned with the civil aviation industry as a whole, rather than with the affairs of any one of its component organizations, and that the Commission wishes to receive information which will enable it to make accurate assessments and recom-



mendations concerning the industry's future development, rather than receive a mass of information already recorded elsewhere, with respect to the past and present.

On the other hand, in order that the Commission may be in a position to assess the worth of the forecasts of the future made in this presentation it will require a brief record of the history of the extremely rapid development which has taken place in Canadian civil aviation. This summary is presented as Appendix "A" hereto. Mr. Chairman, if you would agree, I would not read the appendix which is two pages long and is historic.

THE CHAIRMAN: Yes.

MR. MCGREGOR: Method of presentation. It has been assumed that the Commission would wish to have TCA present its views and data with respect to each of the four terms of reference suggested by Mr. Lessard, it being understood that this information would, as far as possible, be confined to facts in the direct experience of TCA. The first term of reference, sir, which was given from the standpoint of the report which would eventually be issued, read as follows:

"An estimate of the direct and indirect cost of transportation in Canada with some indication of probable future trends. Naturally this study should cover all modes of transportation."

Equally naturally I have confined myself to the air end





of it.

In dealing with this term of reference this presentation will confine itself to comments and statistics with respect to:

- (a) TCA's costs of operation, and
- (b) the cost to the consumer of the services which the Company provides.

(A) TCA's Costs of Operation

Of primary significance is the fact that many commodities, essential to providing air transportation, cost considerably more in Canada than elsewhere in North America. That is not a coy evasion of the United States; it also applies in many cases to Mexico. It is noteworthy that in spite of this condition air transportation rates and tariffs applying to TCA are not substantially higher than elsewhere. And if I may interject again, the average return per passenger per mile in Canada with respect to TCA's tariffs is 6.1 cents and in the United States 5.6 cents, and perhaps I should also say that the average is a component of both one-way travel and round trip travel and first class travel and tourist travel. Furthermore, the tendency in recent years has been for expenses to rise, although increased efficiency primarily associated with increased volumes has thus far made it possible to avoid increases in the price of air transportation to the Company's customers.

Salaries and wages in 1955 comprised 45 per cent of total operating expense and this factor has shown a steady increase. The Company's Wage Bill





in 1955 was \$35,000,000, up 13 per cent from 1954 and more than double the 1950 figure of \$15,000,000. The average monthly wage rate in recent years has been as follows, and it describes them by years, showing a steady increase from \$237 a month in 1948 to \$347 a month in 1955.

Taxation plays a major role in the computation of TCA's costs. The payment of Canadian sales tax on the airline's equipment, both aircraft and ground apparatus, alone places the Canadian Company at an economic disadvantage with its United States competitors, who are not subject to such taxation. As an example, sales tax amounted to \$1,100,000 on the purchase of the Company's current fleet of fourteen Viscounts. In addition, Canadian airlines pay substantial import duty on aircraft spare parts. And again, if I may interpolate, sir, that sales tax is paid on aircraft of Canadian registry for use entirely in Canada. It is not paid on aircraft or the proportion of an aircraft fleet which is used internationally, that is, for overseas operations.

The purchase of aviation fuel constitutes one of the principal items of air transportation expense and it should be noted that the price paid by Canadian airlines for this commodity is considerably higher than is the case in the United States. The price paid for aviation fuel at Toronto is 25 per cent higher than the price paid for the same product at New York, and it is calculated that if all TCA fuel purchases in 1955 had been at the New York price there would have been a saving of approximately



\$1,500,000. The airline's total fuel bill in 1955 was \$11,000,000.

Landing fees payable by Canadian airlines are among the highest in the world and substantially higher than in the United States where, for example, United Air Lines paid \$4.65 in 1954 for landing an aircraft of comparable weight to the North Star. The fee in Canada for a North Star landing was \$19.90.

The cost of hangar and administration building accommodation has also gone up steadily in recent years and is an increasingly significant factor in the Company's cost structure.

Capital investment in aircraft on a per seat basis has risen sharply. In the case of the North Star aircraft this amounted to \$17,000 per installed seat, while the figure rose to \$28,500 for Super Constellations.

As for the future, it is anticipated that the price of labour will continue to rise. On the other hand, it is hoped and expected that the cost of fuel will decrease and that there will be some reduction in landing fees. Capital outlay per installed aircraft seat will rise, but TCA expects its costs per seat mile and per available ton mile will decrease slightly as aircraft speeds increase, providing that the rise in labour costs does not offset the effect of the increased speed.

Weighing the factors which would seem to affect future cost trends, in so far as TCA is concerned, it seems reasonable to forecast a downward





tendency in both the direct and indirect cost per unit of air transportation provided. However, the Company wishes to emphasize that any decrease in cost per seat mile will only be achieved if the volume of traffic available to any one carrier is such that full advantage can be taken of the large and more economical high-speed aircraft now under development.

(B) The Cost to the Consumer of the Services which the Company Provides

It would seem that the picture is best presented to the Commission by recording the history of this Company's rates and tariffs or, in effect, the cost to the public of the air transportation provided.

Accordingly, in Appendix "B" are listed the average prices paid by TCA's customers by years for each passenger mile of transportation, for each ton mile of mail carried and for each ton mile of cargo carried, and by cargo we refer there to the combined air freight and air express.

For purposes of comparison -- I think perhaps you might want to look at Appendix "B" before I go on. The passenger rates are divided between our two major divisions of the Company, our North American services, which include everything domestic to Canada, and the trans-border operations and the Atlantic services, which include the trans-North Atlantic routes and the routes to the South, the Caribbean, Trinidad and Barbados.. There is a slight rise between 1953 and 1954, and while the 1955 figures have not been computed, as an average take per passenger mile,



that again shows a drop with the introduction of the family fare plan on the Atlantic this year, or rather in 1955. The North American rates, you will see, on a per mile basis have shown a steady, although small, increase from 1950 through 1954. The reduction in freight and express rates is more marked and equally steady; and the average return per mail ton mile also shows a steady decrease as the volumes have risen both on the Atlantic and on the domestic services.

For purposes of comparison Appendix "C" contains a table showing the trend of TCA's transportation prices in relation to the Canadian cost of living index. And I think, sir, that that is rather interesting and points on an average basis to the fact that air transportation is perhaps one of the few commodities which has shown a decrease in cost to the consumer over the last five years, and has done so in the face of -- until 1952 -- a rather sharp and steady rise in the consumer price index, thereafter a flat one, and as that flat point was reached in the consumer price index the rate of decline of the cost of air transportation has tended to accelerate.

The second term of reference: An appraisal of future development in the transportation field. This will include some assessment of new facilities which may be constructed, new services to be established, technological improvements, etc.

Again treating this term of reference purely from the standpoint of TCA, it is felt that the following can be said:





The planned development of air transportation in Canada and between Canada and other countries will, in future, require very substantial expenditures for facilities.

New runways will have to be built, and at some airports, runways will require to be increased in size. In some cases, at larger airports, existing runways will need considerable strengthening to bear the weight of the new and heavier aircraft types and, in other cases, new airports will have to be built in their entirety. Beginning in 1960, large jet aircraft will require 9,000-10,000 ft runways. Intermediate range turbo-prop aircraft will require 6,000-7,000 ft. runways, with the shorter range inter-city aircraft needing 5,000 ft. runways.

The problem of traffic congestion at airports is becoming increasingly acute -- and by traffic I mean air traffic -- and measures must be taken for the creation of satellite fields that will permit the segregation of military and light aircraft from the growing volume of civil air operations.

New and larger terminal facilities must be provided at the majority of Canadian airports. These must include adequate accommodation for the handling of passengers, mail and cargo as well as for ground transportation.

The past ten years have shown a rapid development in the technical aids to air navigation over land, sea, and in the vicinity of airports. It is expected that this trend will continue, and that





advantage will be taken of technological improvements, which translate themselves into improved regularity, safety, and further freedom from dependence upon weather. It can be forecast that the current programme of replacement of the existing Canadian system of medium frequency radio ranges will be carried to its logical conclusion, and that installation of navigational aids in the vicinity of airports will be greatly improved and augmented. That statement, I think, is made with confidence, in spite of the fact that I am treading on the preserves of the Department of Transport.

Automatic approach aids will make it possible for civil aircraft to operate safely under farworse conditions of cloud ceiling and visibility than is now possible. The effect of this development on flight regularity will be marked.

Airborne radar will continue its spectacular development with respect to storm avoidance, and navigational assistance as well as flight control of the aircraft itself.

It is likely that more international routes will, in future, be operated and that there will be a large increase in the direct point-to-point services within Canada.

As in the past, it can be expected that the most dramatic progress in technological improvement will be made in aircraft design and construction. The most marked changes will occur in the power plants in use and in the size and speed of the new aircraft.

From the inception of aviation until



April 1st, 1955, all civil aircraft on this continent were powered by one form or another of the piston gasoline engine. On that date, the turbo-propeller powered aircraft came into scheduled airline use -- when the Vickers Viscount was introduced to North America by a Company which I need not name, sir, -- and it is safe to predict that this type of power will rapidly replace the piston engine over many routes during the next five years.

It is almost equally safe to forecast that the full jet engine will come into extensive use on the longer national and international routes during the period 1860-1965. It seems probable that there will also be civil aircraft come into service in that period and over those same routes, using the by-pass engine, a variation of the full jet engine.

Due to the fuel capacities required for non-stop operations over the routes in question, it seems certain that none of these aircraft of the future will be designed for gross weights under 275,000 pounds. This compares with the gross weight of the largest aircraft in current service of 135,000 pounds.

The outstanding feature of these new aircraft types will be their greatly increased speed. The full jet equipment will fly in the neighbourhood of 550 miles per hour and, with such aircraft, TCA plans, for example, to reduce its scheduled flying time from Vancouver to Toronto from a present eight hours to four hours and ten minutes. Appendix "D" gives more detailed examples of anticipated reductions





in flight schedules. . And we might perhaps just take a quick glance at that, which gives some interesting basic statistics on this new long range full jet aircraft and some of its more salient features. You will see that the passenger load has gone up to a maximum of 120. That would be exceeded as a matter of fact with tourist configuration. The gross weights are the more shocking thing, I think, having gone to 285,000 pounds. The effect on the point-to-point times is, as would naturally be expected, much less in the case of the shorter routes but begins to make very substantial differences on the Trans-Atlantic and Trans-Continental services.

The new aircraft, as has already proved to be the case with the turbo-prop, will bring to the public other marked improvements in quality of service. They will be notably free from vibration and comparatively quiet. TCA's experience to date with the Vickers Viscount illustrates how enthusiastically the travelling public reacts to these new advances.

The Commission may be interested in the following comparative statistics for types of aircraft operated by this Company, in the past, currently in service, and under consideration for the future. I begin at the beginning, sir, with the Lockheed 1408 cost of \$105,000, flying 175 miles an hour and carrying ten passengers. The North Star was the next major acquisition -- although it was interjected there with a fleet of D.C. 3's which are still in service but which were not bought new -- they cost \$685,000, flew 220 miles per hour and carried between 40 and 62 passengers depending on the



class of service provided. The Viscount at \$1,000,000, flies 310 miles an hour with 40 passengers and is quite capable of carrying 48 passengers. The Super Constellation, \$2,300,000 apiece, 290 miles per hour and 63 passengers, and very long range. The long range aircraft which I have already mentioned as under contemplation and recently ordered in large quantities by American and Overseas operators, will cost not less than \$5,500,000 apiece, fly oddly enough 550 miles an hour with 120 passengers. These costs that I mention are exclusive of the cost of spare components and ground equipment and tooling to be associated with the maintenance of the aircraft.

It has been suggested that in the more distant future some form of atomic power may be applied to civil aircraft. This is not inconceivable, but it is suspected that these prophecies may have overlooked the possible effect of the complete destruction, on the ground or in the air, of an atomic powered aircraft. The consequent release of radioactivity would not differ substantially from that which would follow the detonation of a small atomic bomb and would probably make the surrounding area untenable for some years. While it is possible that this problem will be overcome, it seems reasonable to forecast that atomic-powered civil aircraft will not be in service in the next fifteen years. It is perhaps noteworthy on that point, sir, that atomic power experiments which are in process of design are confining themselves to water borne aircraft.

Use of rotary wing aircraft by TCA is





difficult to predict at the present time. Although important advances have been made in helicopter design, an aircraft capable of operating economically and with an adequate margin of safety in scheduled civil use has not emerged. The Company does not anticipate use of such equipment before 1960.

Furthermore, serious consideration must be given to the potential of the entirely new type of vertical thrust aircraft which has recently entered the design picture. Utilization of such aircraft is not probable before 1965.

The nature of the aircraft that will transport cargo in the future is also a matter of intensive study. Whether cargo and mail are more economically carried as part of the payload on a passenger aircraft or in an aircraft either designed or modified for that specific purpose, depends upon the relationship of the volume of cargo traffic and passenger traffic on any specific route. At the present time, with a few exceptions, all-cargo aircraft in current use are adaptations of basic passenger aircraft and it is not unlikely that this condition will continue for some time to come.

It should be observed that the advantages accruing to the public by the increased speed of the improved types of aircraft can be seriously offset if adequate ground transportation facilities are not available between airports and city centres. This situation has already become serious at the main centres of population and will become increasingly acute unless energetic and imaginative steps of a remedial nature are taken. In the long run, at least part of the solution may lie





with the rotary wing type of aircraft previously mentioned. However, it is felt that the potentialities of improved surfacetransportation should not be overlooked by the responsible authorities, particularly in regard to the possibilities of: a) the extension to airports of municipal surface, overhead and underground transportation systems; b) vehicular through-ways; and c) inter-urban railway facilities, -- although my hopes along those lines were dashed a few moments ago.

The next term of reference was: Competitive Elements in the Transportation Field. This will deal with the various forms of competing Transportation Services.

This very large subject can be best dealt with in two sections:

- (a) competition between air transportation and other forms of transportation.
- (b) competition between air carriers.

With respect to (a), the great advantage of air transportation over surface transportation is speed. That advantage is steadily increasing in importance as the speed of air transportation goes up very much more rapidly than does the speed of surface transportation. Over the years the rate of growth in air transportation has exceeded the rate of growth of all transportation by steady encroachment into the market for surface transportation. The rate of growth of air transportation has been accelerated by the price trends shown in Appendix "B", which we have already looked at. TCA expects this tendency to continue and believes that as the volume of air transportation increases the downward price trend in relation to other commodities can be maintained.



It is believed that with the development of Canada which can be expected the rate of growth of air transportation will be substantial and that the encroachment on the surface transportation market will continue for some years to come. Appendix "E" records comparative passenger miles performed since 1945 by Canadian civil aviation and the Canadian railways respectively. The steady rise in air transportation passenger miles is shown in the first column of figures moving from 153,000 in 1945 to 1,149,000 with three zeros added to those figures in the case of 1955. The first year shown, on the millions of, or in this case, billions of rail passenger miles, I think, reflects some effect from the War. Thereafter it drops quite sharply and then remains reasonably steady and probably will show, I would think, an increase in 1956. You will notice that the total of the two is also descending. That I attribute to the steady inroads of coach and private car transportation --that is, road coach.

It should also be observed, however, that the growth of an airline's traffic is by no means solely at the expense of other forms of transportation. The nature of aviation is such that a large proportion of the business of the airlines is self-generating and would not exist in any form if it were not for the speed and other characteristics of the transportation medium involved.

This Company foresees a steady growth of air cargo traffic in Canada. Traffic volume has increased steadily in recent years, largely as a result of







increasing industrialization and general prosperity of the nation. A scheduled all-cargo trans-continental service was introduced early in 1955 and although loads have by no means approached available carrying capacity, it is expected that the existence of this facility will encourage more shipment by air in the future.

It is unfortunately the case that at the present time both national and international air cargo traffic is strongly directional and will remain so until the Canadian west becomes more industrialized (as is now the case in the United States) and when the movement of commodities susceptible to air transportation comes into better international balance.

Appendix "F" illustrates the highly directional condition of domestic, trans-border and trans-Atlantic air cargo. You will see from that, sir, trans-continentially in Canada the westbound load is 64 per cent of the total, eastbound 36, with respect to freight; and the figures are even more marked in their discrepancy for air express. On the trans-border services, 93 per cent of the air freight is northbound and 94 per cent of the air express is northbound. Trans-Atlantically, 70 per cent westbound and 30 per cent eastbound.

It is, even with due regard to the possibilities of future aircraft design, very difficult to conceive of bulk cargo in the accepted sense of the word moving by air. However, air carriage will make increasing inroads into those areas of the transportation market where speed of shipment is of paramount importance.

With respect to competition between air



carriers, the management of this Company does not consider it to be any part of its function to attempt to either justify or criticize the Canadian Government's civil air transportation policy. The Company does feel, however, that it would be no more than fulfilling its duty to this Commission if it provided a considered forecast of the effect of a major change in that policy from both the financial and service standpoints.

It is true of all civil aviation in the western world that the margin of profit expressed as a percentage of the gross revenue collected is extremely small. Therefore at the present state of development of the industry and particularly in the case of a country of moderate population, such as Canada, air transportation is highly vulnerable to anything adversely affecting that gross revenue. The airlines are susceptible to the laws applying to any other service industry. Greater economic efficiency can be achieved, and therefore lower production costs, with increased volume. If the volume of traffic available to any one carrier is diminished by division, then either cost reductions otherwise possible cannot be achieved or unit cost increases will occur. Resulting financial stress carries with it the urge to resort to false economies with respect to many elements of a Company's administration which can adversely affect its operating standards.

It is also the case that an increase in unit cost would require either fare increases or the subsidization of the carriers involved which can only take the form of a charge on the public purse. In this





connection, it is to be noted that, while the North Atlantic is a heavy traffic route, the agreed fare per passenger mile charged by all twelve trans-Atlantic carriers is substantially higher than that on any TCA Domestic route. Part, but not all of this difference, is due to the geographical differences of the two route patterns involved.

The feeling sometimes exists that competitive air transportation on Canada's mainline routes would increase frequencies of service. This is erroneous since the small margin of profit previously referred to means that neither one airline nor a group of airlines can operate substantially more capacity over any route than is required to meet the traffic demand. Therefore, if the volume of traffic on a route justifies the operation of six 40-passenger aircraft, the introduction of a parallel carrier would bring about a reduction in the capacity operated by the original carrier to the extent of the traffic carried by the newcomer. At the same time, the overall cost of the operation would rise, thanks to the duplication of ground services and the reduction in efficiency due to the smaller volume.

Division of limited traffic between carriers can deteriorate service in other ways. For example, the total available traffic between say Montreal and Calgary might in the future be sufficient to support a non-stop flight. If that traffic was divided between carriers, this would not be the case and economies might well demand that passengers flying between Montreal and Calgary be inconvenienced by landing at a number of intermediate points. Similarly, at some point in the not distant future it can be assumed that traffic volume





between Toronto and Vancouver will justify a non-stop operation by a large high-speed aircraft. Such service could be indefinitely postponed if that traffic volume was divided between carriers.

The extent to which TCA is already competitive with other carriers is not generally understood. On its overseas and major trans-border operations direct competition prevails and trans-continentially TCA meets very definite competition from some of the large United States carriers who operate close to the international border. Approximately 85 per cent of TCA's total route mileage is competitive directly or nearly so.

Although TCA does hold a partial monopoly, it has so conducted itself as to bring about a steady reduction in the cost of its transportation to its customers. Over the past five years TCA has not been a charge to the public, while depreciating its equipment in accordance with industry standards and paying a fair return on the capital invested in it. Furthermore, where applicable, TCA has since 1952 paid income tax on its corporate earnings.

It is, of course, recognized that even a partial monopoly would be unjustified if the carrier enjoying it allowed the curtailment of competition to affect its policies with respect to standards of service, either in the matter of capacity made available to the market or the type of equipment used. Here it should be noted that comparing the year 1955 with the year 1945 a TCA traffic increase of 104,000,000 revenue ton miles was accompanied by an increase of 184,000,000



available ton miles.

TCA has progressively introduced better aircraft equipment over the years, ranging from the original Lockheed 14's to the present day Super Constellations and Vickers Viscounts. It is no exaggeration to say that no airline in the world is better equipped with aircraft for the type of service to be operated. TCA has at present on order twenty-four additional aircraft of modern design to the aggregate value, including spares, of \$28,800,000. Within the near future the Company will also be making its decision regarding the purchase of long-range sub-sonic equipment and this will involve a very large capital expenditure.

It is probably relevant to draw attention in this submission to the fact that in the United States, with a population of 165 million people, only four carriers have been licensed for scheduled trans-continental operations, each one of them enjoying a much greater traffic potential than that available to Trans-Canada Air Lines. It is also the case in the United States that the distribution of large centres of population is more economically advantageous from the standpoint of U. S. air transportation than in Canada. In spite of this, the United States avoids direct parallelism on a trans-continental basis as far as possible. And perhaps it would be enough to interject there, sir, that I refer to that avoidance as to the termination of trans-continental routes in the three major cities on the West Coast, such as Seattle, San Francisco and Los Angeles. Also, over the last five years, the economic difficulties of the carriers concerned







has resulted in seven cases of consolidation and amalgamation. It is perhaps significant that when the Vancouver Sun recently asked a number of airline executives in the United States for their opinion regarding the economic room for competing trans-continental air carriers in Canada those who elected to reply were of the opinion that a second carrier could not be justified in view of the limited population and overall traffic potential.

THE CHAIRMAN: Did an actual percentage of them reply?

MR. MCGREGOR: Yes, I believe it was four out of nine, sir. We can perhaps have that checked.

THE CHAIRMAN: Did they include Mr. McConachie?

MR. MCGREGOR: They didn't consult either Mr. McConachie or myself, sir.

THE CHAIRMAN: I see.

MR. MCGREGOR: TCA's board of directors are certainly not opposed in principle to competition. Indeed it is recognized that some of TCA's problems might be simplified if competition existed. But it is the opinion of the Board that mainline competition at this stage of Canada's national development would bring in its train a deterioration of the Company's financial position, a deterioration of standards of service due to inability to acquire the most modern and efficient equipment available, and higher unit costs due to reduction in volume of transportation performed.

The last term of reference, sir, was: Transportation costs as a percentage of the gross national product. This will assess the relationship of



transportation costs to the gross national product in the past, and attempt to estimate the corresponding relationship in the future. Perhaps with some of your own doubts on the question of Gross National Product, sir, I suggested that TCA confine itself in attempting to deal with that term of reference to its own experience. Therefore, in Appendix "G" the transportation revenues received by TCA in the past are recorded. Assuming no basic changes in the responsibilities assigned to it, TCA forecasts that in the periods ending December 31, 1960, 1965, 1970 and 1980 its gross transportation revenues will be as follows: those show increases over the first three five-year periods of 45.8, 31.8 and 24.1 per cent, and over the next ten-year period of 38.9 per cent.

THE CHAIRMAN: That is 38.9 per cent over 1970.

MR. MCGREGOR: That is correct, sir.

THE CHAIRMAN: Yes.

MR. MCGREGOR: Conclusion: In confining this report within the areas prescribed by the terms of reference provided, it is of course the case that a great deal of information regarding TCA in particular and the industry in general which might be of interest to the members of the Commission as part of the Canadian transportation pattern has not been recorded.

The Company representatives before the Commission will be in a position to provide any statistical data with respect to the Company which the Commission might require.

Thank you very much.





THE CHAIRMAN: Thank you, Mr. McGregor.

MR. GRAUER: Mr. McGregor, how close do you think we are to all-weather flying, that is, automatic landing at airports? What is the situation there?

MR. MCGREGOR: I am afraid the answer must be very carefully qualified. We are practically at automatic approach. I think we are a long way away from the final actually touch-down. And I think we will continue to see, as I imply in the report, a reduction in the ceiling and visibility requirements without any sacrifice in safety standards, probably down to 100 feet within a matter of the next two or three years. I would think it might be as close as, depending on the surrounding terrain of the airport involved. But I think the final touch-down will remain a matter for the pilot's judgment and his fine hand for a long time to come.

MR. GRAUER: Well, that is getting down pretty low, 100 feet.

MR. MCGREGOR: Yes.

MR. GRAUER: There is another small point in relation to icing. I think it is generally felt, generally believed, that planes now are not bothered with the problem of icing. Every once in a while you read of an incident which apparently indicates that that is not true. What is the situation there?

MR. MCGREGOR: I would say, sir, that modern equipment is such with respect to de-icing and anti-icing equipment that providing it is serviceable and no aircraft is allowed to become airborne unless it is, no matter how good the weather, or how warm it is, that there





is no real danger from icing itself over at least any domestic route, and I am not attempting to say that icing conditions will not be encountered that could not be sustained, but the de-icing and anti-icing equipment is such that there is ample time given to the aircraft to get out of that severe icing condition, and the de-icing and anti-icing equipment is such that it will accommodate quite happily anything that might be described as moderate icing, and a pilot's idea of moderate icing is rather frightening, I should say.

MR. GRAUER: In Vancouver it was represented to us that there was a place for a second airline with no increase in fares, but I take it from your brief that you thoroughly disagree with that view?

MR. MCGREGOR: Yes, for the reasons mentioned, sir. There was in connection with that suggestion, I think, references made to avoiding frills such as the abandonment of a reservation system. I don't know whether the proposer of that idea knew but it nevertheless is a fact that that has been tried at least three times in the United States over extremely heavy traffic routes where the street car type of air transportation might be considered to have a chance, and it was abandoned with some very sore heads. Aviation is still on a footing on which flight interruptions and delays occur and in many cases in severe weather conditions whole groups of flights are cancelled, and it is essential, in the first place, that you won't have forty passengers turning up for a 20-passenger aircraft too often, and that you won't have five passengers turning up for a 60-passenger aircraft. But it is more than essential that



if you are not operating you will get in touch with the man and know who he is and where he may be reached and tell him there is no use of coming eight or ten miles to an airport.

MR. GRAUER: I suppose there is no solution to the question of cancelling of flights, people who have appointments to get to, or boats to catch, and that sort of thing, who happen to run into a bad weather condition where a flight is cancelled as distinguished from just being delayed?

MR. MCGREGOR: I am afraid not. All airlines operate their equipment to a high degree of utilization and if a flight was never cancelled and perhaps due to weather conditions could not travel for twenty hours, then the condition would become obviously cumulative. The one flight that was interrupted due to weather would, by the fact that that aircraft was supposed to be back to take the next day's flight out, would mean that the second day's flight passenger load would be affected, and so on.

MR. GRAUER: There seems to be one respect, then, in which the air cannot compete with the ground transportation.

MR. MCGREGOR: I think the same basic idea applies to rail equipment. If three "Canadians" were held in Vancouver by a slide in the Rockies, as happened not long ago, I don't think that all the Canadians would depart from Montreal on schedule.

MR. GRAUER: I mean there is no cancellation of trains.

MR. MCGREGOR: No, the train is still there, the passengers might as well stay with it.







MR. STEWART: Mr. McGregor, looking thirty years ahead or somewhere at that distance, would you expect the developments to tend towards a condition where you could have two operating companies in the transcontinental routes?

MR. MCGREGOR: Thirty years ahead?

MR. STEWART: Yes.

MR. MCGREGOR: I would be inclined to think so. But it is a very interesting point because -- and it is one I think that should be made to the Commission -- that if that is contemplated, if the growth of Canada and the growth of air traffic is such that it would become an economically sound alternative, then the company operating by itself should certainly be given, I would suggest, at least a ten-year warning, because here we are contemplating an equipment order which we will not see for five years, a very large one in dollars, in the order of \$35 million, with a very high traffic carrying potential, and if the traffic that is available at least five years hence is to be divided on an unforeseen basis, then surely if our equipment order is correct in size made this year, then it provides us redundant aircraft if the traffic is to be divided, and if the newcomer is to arrive with his own new aircraft, as would be expected, I think.

THE CHAIRMAN: Unless you sold him some of yours.

MR. MCGREGOR: Yes. That we might be willing to do under those circumstances.

THE CHAIRMAN: At a profit, I mean.

MR. MCGREGOR: Oh, yes.

MR. GUSHUE: Will civil air services likely show or derive any benefit from the radar installations



now being put in, considered or planned by the U. S. and Canada particularly?

MR. MCGREGOR: Yes. As a matter of fact, it is already the case, that they are extremely helpful. They were not designed for the purpose and there might even be some question as to the propriety of them being used, but as a matter of fact the crews manning radar, ground radar stations, are both anxious to have contact work, for one thing it relieves monotony, for another thing it increases their proficiency, and the result is that civil aircraft flying over such routes as crossing Lake Superior are very happy to contact ground radar stations, both Canadian and United States ownership ask for a description of electrical activity on the route and get very excellent advice. It is perhaps a by-product to an otherwise total expense item.

MR. GUSHUE: They like to practise on you.

MR. MCGREGOR: Yes, although it is hardly a practice in the accepted sense of the word.

MR. GUSHUE: You speak of the necessity of, what I took to be, large expenditures in airport facilities in Canada. Does TCA provide any of these of its own or are they provided for them?

MR. MCGREGOR: No, all airports are provided, either, in a few cases, by the municipality involved or a combination of the municipal and federal authority or by the federal authority, or in one or two cases by one of the armed services, and TCA's use of those airports is covered by the landing fees charged, a fee of one cent per gallon of fuel boarded at each of





these airports and all building facilities that are used by TCA are rented under regular space lease.

MR. GUSHUE: TCA then is not necessarily or perhaps in any case the exclusive user of any of these facilities.

MR. MCGREGOR: I don't think there is a case where we are the exclusive user. There are one or two points where we are the only scheduled airline user, but at the vast majority of the airports there is more than one scheduled air service operating.

MR. GUSHUE: Do you take part, play a part in any international organizations, the TCA?

MR. MCGREGOR: Yes, TCA from the inception of the organization has played quite an active part in the International Air Transport Organization, the head office of which is in this building and should not be confused with ICAO, which is the association of government representatives, whereas IATO is the association of carriers. There are sixty-two member companies, they represent virtually all of the scheduled international airlines on this side of the Iron Curtain and TCA has played quite an important part in it. A president of the organization has been an officer of TCA on two occasions. And I don't want to sound complacent but the technical people of TCA have been very strongly sought after by IATO in the matter of chairing committees, such as the technical committee and the traffic committee and chairing traffic conferences.

MR. GUSHUE: You share experience and so on, I suppose, do you?

MR. MCGREGOR: Yes, and rate-fixing of





international rates is also done under the jurisdiction of that organization by agreement of the governments concerned.

MR. GUSHUE: Could that come within the discussion of combine in restraint of trade that we heard of this morning?

MR. MCGREGOR: Very strongly so, to the point where there was grave doubt as to whether the American carriers for some time would be allowed to participate in the activities of IATO.

MR. GUSHE: Do you think you are in the clear?

MR. MCGREGOR: Yes, the way things were there, I think so. All the findings of IATO must be approved by all of the governments concerned. They don't always receive that approval, either.

THE CHAIRMAN: Mr. McGregor, your estimates of increased revenues, which I suppose are roughly the same as increased passengers or whatever the measuring stick is?

MR. MCGREGOR: Yes.

THE CHAIRMAN: On page 14, it surprised me because, you know, in a sense we were exhorted yesterday by Mr. Fowler to keep our sights up and not to underestimate what can happen in this country. A 45 per cent increase over the five-year period 1955 to 1960 sounds a lot, but is it as much as is going to happen?

MR. MCGREGOR: Well, one can never swear with conviction with respect to a forecast of the future. But in regard to percentage increases we must remember



that the actual increment is rising, although it may represent a smaller percentage of last year and yet nevertheless the increment in ton miles of transportation provided is steadily increasing. But those set of figures reflect a condition that we believe exists and was dealt with again by inference in another part of the report where we say that the encroachment on other means of transportation will continue in our opinion for some while longer, but it is gradually going to become less as it gets near the bottom of the barrel.

THE CHAIRMAN: Yes.

MR. MCGREGOR: And I think sooner or later we are going to bump into the condition where the growth in air transportation is going to be directly related to the growth of the country and not to stealing passengers from Donald Gordon and Mr. Crump.

THE CHAIRMAN: I understand that in the past members of Royal Commissions have usually patronized the railways, but we think that as our function is to look ahead and look forward we are travelling by your Company.

MR. MCGREGOR: I was delighted to note that, sir.

THE CHAIRMAN: Very good service, too, I might add.

MR. MCGREGOR: Thank you.

THE CHAIRMAN: On the subject of air freight, I wonder if you would care to amplify a little bit what you have said? Do you think there are limitations really on the development of air freight?





Quite obviously you are not going to carry the kind of commodities that are shipped in bulk except -- I am not thinking of TCA, but aircraft generally -- but do you carry a great deal to the north, heavy stuff? Is it likely to increase at a reasonably fast rate or are there real limitations on it?

MR. MCGREGOR: Well, there are limitations at the present time. I referred to the virtual absence of air cargo aircraft designed and built as such, and it is a surprising fact. There has been one military type, the Fairchild C-119, which can be seen at Dorval, it is a twin boomed aircraft developed in the States and so far as I know that is the only one that is actually airborne today that is designed around the idea of cargo and I don't think it has been made available to civil operators. In England there has been one very big aircraft in existence, and only one of its type, for four years, called the Beverley, which at the present time is undergoing cold weather tests in the north. And we ourselves have owned until recently three Bristol freighters, again an aircraft designed entirely with the idea of the movement of cargo. But apart from that, the competition of out-moded passenger aircraft modified to the carriage of cargo has depressed the market or the apparent market so strongly in the manufacturers' eyes that good cargo-carrying aircraft have not been developed and built, and that has been certainly something of an obstacle in what I would say would otherwise have been the rapid development of cargo. These heavy differentials in the directional movement of the traffic, which I referred to, is another



serious one. If we are flying between here and Vancouver daily, as we are, five days a week and we find that we have an eighty per cent load factor westbound and twenty eastbound, the overall is about fifty. But I am quite certain that as time goes on, as more and more passenger aircraft lose their appeal for passengers and are made available in a fully depreciated condition to cargo work that we will see a rapid development. At the present time our average air cargo rate in Canada is just over 18 cents a ton mile, which, as you will see, does not begin to compare with some of the figures we have heard this afternoon.

THE CHAIRMAN: You outlined in your brief the equipment requirements that you would be needing, all of which or none of which, I presume, will be available in Canada. You will have to go out of Canada to buy them, will you?

MR. MCGREGOR: Yes, there is a development under consideration in which Canadair would be involved that you will probably hear about. That is so far as I know just a possibility under consideration. The requirements of the Royal Canadian Air Force will have some influence on what might be built in Canada, but in the matter of big civil types the only exception to the purchase outside of Canada has been the North Star.

THE CHAIRMAN: Are there any restrictions as far as acquiring equipment in Canada, either available delivery dates by manufacturers or the amount of capital that you can get for the purpose?

MR. MCGREGOR: No. I am responsible to a board of directors and I must be able to convince them





that the suggested capital expenditure is justified from the standpoint of potential earning, but once that point is established there has been no difficulty in obtaining capital.

THE CHAIRMAN: Does the government put that capital up or do they expect you to earn it, so to speak?

MR. MCGREGOR: TCA's capital structure is \$20 million of 25-year debenture and \$5 million of equity capital in the form of stock, all of which is held by the C.N.R.

THE CHAIRMAN: Yes, but if you need more money for equipment?

MR. MCGREGOR: We borrow it from the C.N.R. who in turn get it from the government.

MR. GUSHUE: Does the exclusive franchise that the TCA has on certain routes include air express and air freight or is that just passengers?

MR. MCGREGOR: Yes. I should interject there that virtually all of the Canadian routes are eligible to be flown over by chartered flights either for cargo or passengers, but that is not a scheduled operation.

THE CHAIRMAN: Thank you very much, Mr. McGregor. This has been a most interesting submission. We will mark your brief Exhibit 115. And on that note we will adjourn until tomorrow morning. Thank you very much.

MR. MCGREGOR: Thank you.

--- At 5.40 p.m. the Commission adjourned until 10.00 a.m. January 19, 1956.



















